

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF THE BOARD OF DIRECTORS FOR )  
UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES )  
OF THE CITY OF INDIANAPOLIS, D/B/A CITIZENS )  
ENERGY GROUP, CWA AUTHORITY, INC., THE CITY OF )  
INDIANAPOLIS AND ITS DEPARTMENT OF )  
WATERWORKS AND ITS SANITARY DISTRICT FOR )  
APPROVALS IN CONNECTION WITH THE PROPOSED )  
TRANSFER OF CERTAIN WATER UTILITY ASSETS TO )  
THE BOARD AND THE PROPOSED TRANSFER OF )  
CERTAIN WASTEWATER UTILITY ASSETS TO THE )  
AUTHORITY, INCLUDING: (A) APPROVAL OF INITIAL )  
RATES AND RULES FOR WATER AND WASTEWATER )  
SERVICE , AS WELL AS THE TERMS OF CERTAIN )  
AGREEMENTS FOR WASTEWATER TREATMENT AND )  
DISPOSAL SERVICE; (B) APPROVAL OF AN )  
ENVIRONMENTAL COMPLIANCE PLAN UNDER IND. )  
CODE 8-1-28 AND AN ADJUSTMENT MECHANISM FOR )  
WASTEWATER RATES TO PROVIDE TIMELY RECOVERY )  
OF COSTS NECESSARY TO COMPLY IN WHOLE OR IN )  
PART WITH THE SAFE DRINKING WATER ACT AND/OR )  
CLEAN WATER ACT; (C) APPROVAL OF PROPOSED )  
ALLOCATIONS OF CORPORATE SUPPORT SERVICES )  
COSTS AMONG AFFECTED UTILITIES; (D) APPROVAL OF )  
AN OPERATING AGREEMENT BETWEEN CITIZENS )  
ENERGY GROUP AND CWA AUTHORITY, INC.; (E) )  
APPROVAL OF DEPRECIATION RATES AND OTHER )  
ACCOUNTING MATTERS RELATED TO THE WATER AND )  
WASTEWATER ASSETS; AND (F) ANY OTHER )  
APPROVALS NEEDED IN CONNECTION THEREWITH )

CAUSE NO. 43936

VERIFIED REBUTTAL TESTIMONY AND EXHIBITS

of

CAREY B. LYKINS, AARON D. JOHNSON, JOHN R. BREHM,  
LINDSAY C. LINDGREN, JAMES O. DILLARD, LATONA S. PRENTICE

and

MICHAEL D. STROHL

On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.

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OTHER APPROVALS NEEDED IN CONNECTION )  
THEREWITH )

CAUSE NO. 43936

VERIFIED REBUTTAL TESTIMONY  
OF  
CAREY B. LYKINS

On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.

Petitioners' Exhibit CBL-R

1 **INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Carey B. Lykins. My business address is 2020 North Meridian  
4 Street, Indianapolis, Indiana.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the President and Chief Executive Officer of Citizens Energy Group and  
7 CWA Authority, Inc. (the "Authority").

8 **Q. ARE YOU THE SAME CAREY B. LYKINS WHO PREVIOUSLY**  
9 **TESTIFIED ON BEHALF OF CITIZENS ENERGY GROUP AND THE**  
10 **AUTHORITY IN THIS PROCEEDING?**

11 A. Yes I am.

12 **Q. DO YOU HAVE ANY INITIAL COMMENTS YOU WOULD LIKE TO**  
13 **MAKE REGARDING THE TESTIMONY THAT HAS BEEN FILED IN**  
14 **THIS PROCEEDING?**

15 A. Yes. The Commission has before it an extensive amount of testimony covering a  
16 variety of topics. In many cases, we believe our rebuttal position will resolve the  
17 concerns expressed. What we cannot do is accommodate a position that would  
18 threaten the financial integrity of the utilities under the new ownership structure  
19 or accept a proposal that would alter or violate the terms of the asset purchase  
20 agreements and cause the City, Citizens Energy Group and the Authority to seek  
21 another approval of the City-County Council.

1           Our willingness to compromise on certain issues is also motivated by our  
2           desire to ensure the fundamental objective the City and Citizens Energy Group set  
3           out to achieve—a more efficient and economical management and operation of  
4           the City's water and wastewater utilities—is not obscured. While aspects of this  
5           proceeding are complex, the basic proposal is not. The City's water and  
6           wastewater utilities face significant challenges. To meet those challenges,  
7           Citizens Energy Group and the City concluded that the public charitable trust  
8           model, which has served the City's gas utility well for more than a century,  
9           should be replicated for the water and wastewater utilities. The public charitable  
10          trust model will impose a fiduciary duty on the Citizens Energy Group Board to  
11          (1) provide water and wastewater services at reasonable cost; (2) protect the water  
12          and wastewater systems from private ownership or control and partisan political  
13          governance; and (3) coordinate the operations of the water and wastewater  
14          systems with other Citizens Energy Group utility systems in order to achieve  
15          synergies. Mayor Ballard and the City-County Council have given us an  
16          opportunity to extend the benefits of the public charitable trust model to the water  
17          and wastewater utilities. I urge the Commission to reject those proposals that  
18          would threaten our ability to seize that opportunity.

19   **Q.   WHAT IS THE PURPOSE OF THE REMAINDER OF YOUR REBUTTAL**  
20   **TESTIMONY?**

21   **A.**   The primary purpose of my rebuttal testimony is to address the testimony filed by  
22          the Indiana Office of Utility Consumer Counselor ("OUCC") in this proceeding.

1 I also identify the other rebuttal witnesses testifying on behalf of Citizens Energy  
2 Group and the Authority and briefly describe the issues each witness addresses.

3 **OUCC TESTIMONY**

4 **Q. HAVE YOU READ THE PREPARED TESTIMONY THE OUCC FILED**  
5 **IN THIS PROCEEDING?**

6 A. Yes I have.

7 **Q. WHAT IS YOUR GENERAL REACTION TO THE OUCC'S**  
8 **TESTIMONY?**

9 A. I am pleased that the state agency charged with representing the interests of utility  
10 ratepayers has recognized the benefits the proposed acquisitions will bring to  
11 customers of utility services in and around the City of Indianapolis. The OUCC's  
12 chief witness Scott A. Bell recommends the Commission find that Citizens  
13 Energy Group has the technical and managerial ability to own and operate the  
14 water and wastewater utilities. The consulting firm engaged by the OUCC to  
15 analyze our synergy study confirms that the key assumptions underlying that  
16 study are reasonable and our \$60 million savings projection is realistic. The  
17 OUCC also supports the reasonableness of certain proposals we have made in  
18 connection with the acquisitions, including partial agreement on an environmental  
19 compliance ratemaking plan that will improve our ability to manage the  
20 significant costs that will be incurred to largely eliminate the City's combined  
21 sewer overflow problem. While I recognize the OUCC has recommended the  
22 Commission impose a number of conditions in connection with its approval of the



1 relief we have requested in this proceeding, I very much appreciate the OUCC's  
2 general support for the proposed acquisitions.

3 **Q. DO YOU HAVE ANY OVERALL COMMENTS REGARDING THE**  
4 **RECOMMENDATIONS THE OUCC MADE IN CONNECTION WITH**  
5 **THE COMMISSION'S APPROVAL OF THE PROPOSED**  
6 **ACQUISITIONS?**

7 A. Yes. In its prepared testimony, the OUCC made numerous recommendations in  
8 connection with the proposed acquisitions. Many of those recommendations  
9 would have the Commission establish conditions or limitations related to Citizens  
10 Energy Group's and the Authority's ownership and operation of the water and  
11 wastewater utilities. The sheer number of conditions and limitations  
12 recommended by the OUCC, as well as the manner in which many of those  
13 recommendations are worded (i.e., recommending the Commission "require" or  
14 "order" Citizens Energy Group to take a variety of actions), suggest an overly  
15 detailed form of Commission regulation of Citizens Energy Group and the  
16 Authority with respect to our ownership and operation of the water and  
17 wastewater utilities. While I am sure each of the OUCC's recommendations is  
18 well intentioned to further a specific objective the OUCC believes is important, it  
19 is my belief Citizens Energy Group's long history of successfully operating  
20 utilities in the City of Indianapolis demonstrates many of the recommendations  
21 proposed are unnecessary and will only prove burdensome to the Commission and  
22 the utilities.

1    **Q.    ARE ANY OF THE OUCC'S PROPOSED RECOMMENDATIONS**  
2    **ACCEPTABLE?**

3    A.    Yes. Generally, I would separate the OUCC's recommendations into three  
4    categories. First, many of the OUCC's proposed recommendations, while  
5    potentially unnecessary as noted above, are generally acceptable to Citizens  
6    Energy Group and the Authority. Second, others could be acceptable with some  
7    modification or clarification. For example, various OUCC witnesses recommend  
8    we establish metrics that will be used to track acquisition-related savings and  
9    costs and submit certain reports regarding savings. Citizens Energy Group fully  
10   intends to demonstrate accountability for achieving the savings that have been  
11   projected. My commitment to do that has not changed, but we may have slightly  
12   different ideas than the OUCC about how reporting requirements should be  
13   established.

14   **Q.    WHAT ARE THE RECOMMENDATIONS THAT FALL INTO THE**  
15   **THIRD CATEGORY?**

16   A.    The third category comprises recommendations proposed by the OUCC that  
17   would be extremely problematic, if they were adopted by the Commission in a  
18   final order in this proceeding. Those recommendations are:

- 19   •    Mr. Bell's recommendation that the Authority be financially responsible for  
20   completing all STEP projects in addition to the STEP projects identified in  
21   Schedule 2.04(d) of the Wastewater Asset Purchase Agreement (the  
22   "Wastewater APA").

- 1 • Mr. Kaufman's recommendation that the term "Fair Market Value" be defined  
2 "in a manner that prevents the ratepayers from paying for the same plant or  
3 other assets twice, if either or both utilities are ever sold back to the City."
- 4 • Mr. Kaufman's recommendation that "decisions in the final order in Cause  
5 No. 43645 should apply to CEG."
- 6 • Mr. Patrick's recommendations that the Commission decline to pre-approve  
7 debt service payments in future rate cases for certain debt that Citizens Energy  
8 Group and the Authority contemplate issuing in the future; and
- 9 • Mr. Patrick's recommendation that the Commission require Citizens Energy  
10 Group repay the City for any outstanding short-term debt owed by the  
11 Department of Waterworks to the City, if the Commission approves in Cause  
12 No. 43645 the amount of working capital the DOW requested as part of its  
13 overall revenue requirement.

14 **Q. PLEASE DISCUSS YOUR CONCERNS WITH MR. BELL'S**  
15 **RECOMMENDATIONS REGARDING THE STEP.**

16 A. Mr. Bell recommends the Commission "order the Authority to be financially  
17 responsible for completing all the STEP projects in addition to the STEP projects  
18 the Authority has already agreed to complete, which are identified in Schedule  
19 2.04(d) of the wastewater system Asset Purchase Agreement." (Pub. Exh. No. 1  
20 at 39). It is unclear what Mr. Bell means by "all the STEP projects" or  
21 "financially responsible"; however, we believe it is premature in this proceeding  
22 to address the completion of any STEP projects in addition to those the City and

1 the Authority agreed should be committed to as set forth in Section 2.04(d) of the  
2 Wastewater APA. Mr. Dillard indicated in his case-in-chief testimony that the  
3 Authority does not intend to limit the completion of STEP projects to the projects  
4 identified in the Wastewater APA. He addresses the topic again in his prepared  
5 rebuttal testimony and expands on the cost benefit analysis process he initially  
6 described. Consideration of additional STEP projects will involve a number of  
7 public policy considerations that require input from numerous stakeholders. We  
8 welcome the participation of the OUCC and Commission as part of that process,  
9 which we are prepared to begin in earnest as soon as the Authority and Citizens  
10 Energy Group assume responsibility for ownership and operation of the  
11 wastewater system.

12 **Q. PLEASE ADDRESS MR. KAUFMAN'S "FAIR MARKET VALUE"**  
13 **RECOMMENDATION.**

14 A. Mr. Kaufman's proposal is intended to address concerns he has with sections 8.08  
15 and 8.09 of the water and wastewater asset purchase agreements. The principal  
16 objective of those sections of the asset purchase agreements is to make clear that  
17 once the water and wastewater systems are conveyed to Citizens Energy Group  
18 and the Authority and made subject to separate public charitable trusts, they can  
19 never be sold or transferred to another entity, including a sale back to the City.  
20 Mr. Kaufman's recommendation would undermine that objective by giving future  
21 City administrations an incentive to attempt to repurchase the assets at a price that  
22 does not reflect their fair market value. Mr. Johnson discusses this and other

1 problems with Mr. Kaufman's fair market value recommendation in his prepared  
2 rebuttal testimony.

3 **Q. WHAT IS YOUR CONCERN WITH MR. KAUFMAN'S**  
4 **RECOMMENDATION THAT "DECISIONS MADE IN THE FINAL**  
5 **ORDER IN CAUSE NO. 43645" APPLY TO CITIZENS ENERGY**  
6 **GROUP?**

7 A. At the time my rebuttal testimony was filed, the final order in Cause No. 43645  
8 had not been issued, so I cannot speak to specific conditions or obligations that  
9 might be imposed on the DOW in that order. Generally speaking, however, I do  
10 not believe it is fair or appropriate to suggest conditions and obligations that will  
11 be imposed on the DOW in that order should be applicable to Citizens Energy  
12 Group. I believe any conditions and obligations imposed on the water utility in  
13 the final order in Cause No. 43645 will be based on the circumstances facing the  
14 utility under its current ownership and management structure. To the extent the  
15 Commission wishes to impose obligations on the water utility under Citizens  
16 Energy Group's ownership and management, I believe they should be explicitly  
17 set forth in a final order in this proceeding.

18 I also am troubled by Mr. Kaufman's suggestion that Citizens Energy  
19 Group's use of revenues be restricted based on the final order in Cause No.  
20 43645. Such a proposal is based on the mistaken premise that the water utility,  
21 under Citizens Energy Group's ownership, will expend funds from its cash  
22 revenue requirement in precisely the same manner used to support the DOW's

1 proposed revenue requirement in Cause No. 43645, based on a historical test year  
2 with pro forma adjustments. It is true that Citizens Energy Group is requesting  
3 approval to adopt the rates and charges the Commission approves in Cause No.  
4 43645. It is not the case, however, that Citizens Energy Group's financial  
5 modeling is based on the assumption that the breakdown of the water utility's  
6 revenue requirement into component parts presented by the DOW in Cause No.  
7 43645 is illustrative of the ongoing needs of the water utility under Citizens  
8 Energy Group's ownership and operation.

9 **Q. WHAT IS YOUR CONCERN WITH MR. PATRICK'S**  
10 **RECOMMENDATION THAT THE COMMISSION DECLINE TO PRE-**  
11 **APPROVE DEBT SERVICE PAYMENTS IN FUTURE RATE CASES FOR**  
12 **CERTAIN DEBT THAT CITIZENS ENERGY GROUP AND THE**  
13 **AUTHORITY CONTEMPLATE ISSUING IN THE FUTURE?**

14 **A.** Citizens Energy Group and the Authority are not seeking approval in this  
15 proceeding to recover in future rate cases debt service payments for debt to be  
16 issued for working capital or capital expenditures. Consequently, there is no  
17 reason for the Commission to deny approval of relief we are not seeking. Indeed,  
18 any language in the final order in this proceeding that is perceived by rating  
19 agencies as a pre-judgment by the Commission calling into question Citizens  
20 Energy Group's or the Authority's ability to recover costs for that debt, could  
21 jeopardize the utilities' credit rating or possibly even jeopardize Citizens Energy

1 Group's or the Authority's ability to finance the acquisitions. Mr. Brehm  
2 discusses this topic in more detail in his rebuttal testimony.

3 **Q. PLEASE DISCUSS YOUR CONCERN REGARDING THE OUCC'S**  
4 **RECOMMENDATION THAT THE COMMISSION REQUIRE CITIZENS**  
5 **ENERGY GROUP REPAY THE CITY FOR ANY OUTSTANDING**  
6 **SHORT-TERM DEBT OWED BY THE DEPARTMENT OF**  
7 **WATERWORKS TO THE CITY, IF THE FINAL ORDER IN CAUSE NO.**  
8 **43645 APPROVES THE AMOUNT OF WORKING CAPITAL THE DOW**  
9 **REQUESTED AS PART OF ITS OVERALL REVENUE REQUIREMENT.**

10 A. I recognize the City's advancement of money from its general fund to the  
11 Department of Waterworks presents a serious dilemma. However, it is impossible  
12 to comment on whether the final order in Cause No. 43645 will present a partial  
13 solution to that dilemma, absent the ability to review the entirety of the order.  
14 Moreover, the OUCC's proposal raises the more fundamental concern I discussed  
15 previously regarding restricting the use of revenues.

16 **Q. PLEASE IDENTIFY JOINT PETITIONERS' EXHIBIT CBL-R-1.**

17 A. Joint Petitioners' Exhibit CBL-R-1 is a consolidated listing of the  
18 recommendations summarized at the end of each OUCC witness's testimony.  
19 The listing also includes Citizens Energy Group and the Authority's response to  
20 each recommendation and the rebuttal witness who discusses the recommendation  
21 in his or her testimony or can address the recommendation, if necessary, during  
22 the February hearing in this Cause.

**OVERVIEW OF CITIZENS ENERGY GROUP AND THE AUTHORITY'S REBUTTAL CASE**

**Q. PLEASE INTRODUCE THE OTHER WITNESSES WHO ARE  
TESTIFYING ON BEHALF OF CITIZENS ENERGY GROUP AND THE  
AUTHORITY IN THEIR REBUTTAL CASE.**

**A.** In addition to me, the following witnesses are offering rebuttal testimony on behalf of Citizens Energy Group and the Authority:

- Mr. Aaron D. Johnson, Vice President of Integration and Associate Counsel, responds to the OUCC's recommendations regarding the reporting of acquisition-related savings. He also addresses certain recommendations made by the OUCC regarding integration of the water and wastewater systems. Mr. Johnson also testifies in support of the Agreement Pertaining to the Agreement for the Operation and Maintenance of the Advanced Wastewater Treatment Facilities and Wastewater and Stormwater Collection System filed in this proceeding by United Water Services Indiana LLC on January 14, 2011. Finally, Mr. Johnson responds to the testimony filed by the Service Advisory Board and Consumer Ratepayers.
- Mr. John R. Brehm, Senior Vice President and Chief Financial Officer, responds to a number of financial and accounting issues raised by the OUCC and industrial intervenors, including an extensive discussion regarding the financial plans for the water and wastewater systems and the need for both systems to maintain sufficient cash working capital in order to successfully execute those plans.



- 1 • Mr. Lindsay C. Lindgren, Vice President of Gas and Steam Operations,  
2 addresses issues raised by the OUCC regarding capital planning for the water  
3 system, water conservation, drought response planning and automated meter  
4 reading.
- 5 • Mr. James O. Dillard, General Manager, Project Engineering, responds to  
6 testimony of the OUCC addressing STEP, Citizens Energy Group's technical  
7 and managerial ability to operate the wastewater utility and the Authority's  
8 request for a certificate of territorial authority to continue serving wastewater  
9 customers in Hamilton County.
- 10 • Ms. LaTona S. Prentice, Executive Director of Regulatory Affairs, responds to  
11 issues raised by the OUCC regarding the Authority's proposed environmental  
12 compliance plan cost recovery mechanism, proposed terms and conditions for  
13 water and wastewater utility service and CSS cost allocation agreements.
- 14 • Mr. Michael D. Strohl, Vice President of Customer Relationships, addresses  
15 various issues raised regarding the customer deposit and combined billing  
16 proposals made by Citizens Energy Group in this proceeding.

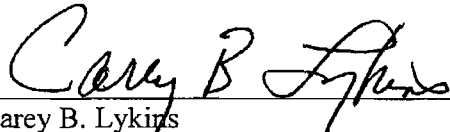
17 **CONCLUSION**

18 **Q. DOES THAT CONCLUDE YOUR PREPARED REBUTTAL**  
19 **TESTIMONY?**

20 **A. Yes it does.**

**VERIFICATION**

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.

  
Carey B. Lykins



**SUMMARY OF JOINT PETITIONERS'  
RESPONSES TO OUCC RECOMMENDATIONS**

**Recommendations of OUCC Witness Scott A. Bell**

1. OUCC Recommendation: The Commission approve CEG's proposed ECP as contemplated in Ind. Code § 8-1-28-5.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

2. OUCC Recommendation: The Commission order the Authority and CEG to continually analyze the currently approved CSO Projects detailed in the LTCP and look for and implement design efficiencies and cost savings as they strive to complete the remaining Projects.

Joint Petitioners' Response: The Authority will complete the CSO Projects as cost effectively as reasonably practicable.

Rebuttal Witness: Aaron D. Johnson

3. OUCC Recommendation: The Commission order the Authority and CEG to document any construction costs savings for the remaining CSO Projects.

Joint Petitioners' Response: Citizens fully intends to document and report savings achieved as a result of the acquisition and is in the process of designing the metrics that will be used to measure such savings and the format for reporting them.

Rebuttal Witness: Aaron D. Johnson

4. OUCC Recommendation: The Commission order the Authority to be financially responsible for completing all the STEP projects in addition to the STEP projects the Authority has already agreed to complete, which are identified in Schedule 2.04(d) of the wastewater system Asset Purchase Agreement.

Joint Petitioners' Response: Joint Petitioners believe it would be premature to address in this proceeding the completion of STEP projects beyond those the City and the Authority committed to in Schedule 2.04(d) of the wastewater system Asset Purchase Agreement.

Rebuttal Witnesses: Carey B. Lykins, James O. Dillard

5. OUCC Recommendation: The Commission order CEG and the Authority to provide information about the STEP Projects on the Citizens website so that consumers are well informed about the STEP Projects.

Joint Petitioners' Response: Citizens Energy Group and the Authority will make available information about the STEP Projects utilizing the Citizens Energy Group website and other communication media.

Rebuttal Witness: James O. Dillard

6. OUCC Recommendation: The Commission find that CEG has the managerial ability to own and operate the water and wastewater utilities.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

7. OUCC Recommendation: The Commission require CEG and the Authority to continue the DOW's and the Sanitary District's practice of actively participating in the AWT Technical Advisory Panel and the TAG meetings and treating these groups as a valuable management asset.

Joint Petitioners' Response: Citizens Energy Group and the Authority intend to seek input from advisory groups and other organizations interested in water and wastewater issues.

Rebuttal Witness: Aaron D. Johnson

8. OUCC Recommendation: The Commission order CEG and the Authority to create a forum to allow public input on significant utility decisions.

Joint Petitioners' Response: Citizens Energy Group's board and the Authority's board meet monthly. Advance notice of those meetings, which are open to the public, is posted on Citizens Energy Group's web site.

Rebuttal Witness: Carey B. Lykins

9. OUCC Recommendation: The Commission order CEG and the Authority to adopt the current practice of working with the local environmental groups or other partners to protect source water resources and streams and rivers.

Joint Petitioners' Response: Citizens Energy Group and the Authority intend to seek input from local environmental groups and other organizations interested in water and wastewater issues.

Rebuttal Witness: Aaron D. Johnson

10. OUCC Recommendation: The Commission order CEG to either (1) adopt the 2009

Veolia Conservation Plan or (2) use the 2009 Veolia Conservation Plan to develop its own Conservation Plan to be presented to the Commission for approval.

Joint Petitioners' Response: Citizens Energy Group agrees to develop a water conservation plan using the 2009 Water Conservation Plan the DOW submitted to the Commission.

Rebuttal Witness: Lindsay C. Lindgren

11. OUCC Recommendation: The Commission order CEG to develop a systematic plan to ensure timely and effective response to drought conditions.

Joint Petitioners' Response: Citizens Energy Group agrees to develop a drought response plan.

Rebuttal Witness: Lindsay C. Lindgren

12. OUCC Recommendation: The Commission establish a reporting mechanism for tracking compliance with the foregoing recommendations.

Joint Petitioners' Response: Citizens Energy Group is willing to discuss a reasonable means of ensuring compliance with any conditions or obligations adopted by the Commission in its final order in this proceeding.

Rebuttal Witness: Carey B. Lykins, Aaron D. Johnson

**Recommendations of OUCC Witness Edward R. Kaufman**

13. OUCC Recommendation: The Commission require CEG to document the savings it generates as a result of the proposed acquisition, and to provide reports to both the Commission and the OUCC showing what savings have been achieved and that the savings are directly attributed to the proposed merger.

Joint Petitioners' Response: Citizens fully intends to document and report savings achieved as a result of the acquisition and is in the process of designing the metrics that will be used to measure such savings and the format for reporting them.

Rebuttal Witness: Aaron D. Johnson

14. OUCC Recommendation: The term "Fair Market Value" be defined by CEG and the City in a manner that prevents the ratepayers from paying for the same plant or other assets twice, if either or both utilities are ever sold back to the City.

Joint Petitioners' Response: This recommendation would undermine Sections 8.08(d) and 8.09(d) of the water and wastewater asset purchase agreements, which are intended to prohibit a future sale of the water and wastewater systems.

Rebuttal Witness: Aaron D. Johnson

15. OUCC Recommendation: The Commission reject the Authority's proposal to include operating expenses or a reconciliation mechanism in its proposed ECPRM and establish a specific process for the proposed ECPRM.

Joint Petitioners' Response: Indiana Code Section 8-1-28-11(a)(2) provides for the recovery of "the costs and expense incurred by the public utility in the development and implementation of the approved environmental compliance plan." (emphasis added). The cost of implementing the environmental compliance plan includes operation expenses. The proposed reconciliation mechanism is intended to protect both the Authority and its customers from over or under recovery of costs caused by the difference between estimated and actual costs, as well as estimated and actual sewage disposal service use. Regarding the establishment of a process for the ECPRM, the Authority would welcome the opportunity to collaborate with the OUCC, Commission staff, if appropriate, and any other interested parties to work through the logistics of the procedural schedule for an ECPRM, and to define what sort of filing requirements might be appropriate

Rebuttal Witness: LaTona S. Prentice

16. OUCC Recommendation: The Commission accept the Authority's proposed PILOT payment obligation in future rates, but only on the condition that the proposed PILOTs act as both a floor and a ceiling.

Joint Petitioners' Response: Citizens agrees the PILOT Payments the Authority has agreed to pay pursuant to Section 3.05 of the Wastewater APA will act as both a floor and a ceiling for purposes of rate recovery; provided, however, such agreement will not preclude the Authority from seeking recovery in rates of any PILOT obligations imposed by entities other than the City of Indianapolis.

Rebuttal Witness: Aaron D. Johnson

17. OUCC Recommendation: Unless specifically identified in the Commission's final order, approval of the APAs does not constitute a blanket approval of all items in the APAs that may influence future ratemaking treatment.

Joint Petitioners' Response: See Joint Petitioners' Response to OUCC Recommendation No. 59.

Rebuttal Witness: John R. Brehm

18. OUCC Recommendation: Systems outside Marion County be treated similarly to systems located inside Marion County

Joint Petitioners' Response: The Intergovernmental Agreements pursuant to which areas outside Marion County are provided water service provide that the water utility "shall treat all Units with substantially similarity in a nondiscriminatory fashion, particularly in offering preferential rates. . . ." Citizens Energy Group will honor that commitment.

Rebuttal Witness: Aaron D. Johnson

19. OUCC Recommendation: Inclusion of language in final order that may provide confidence to bond rating agencies that the Water and Wastewater utilities will have sufficient rates to meet their ongoing debt service requirements.

Joint Petitioners' Response: Citizens Energy Group agrees that such language should be included in a final order and will propose language it believes is appropriate in its proposed order.

Rebuttal Witness: John R. Brehm

20. OUCC Recommendation: Decisions made in the final order in Cause No. 43645 should apply to CEG.

Joint Petitioners' Response: Citizens Energy Group does not believe it would be appropriate to make applicable to Citizens Energy Group conditions and obligations imposed on the DOW in the final order in Cause No. 43645. Any conditions and obligations imposed on the water utility in the final order in Cause No. 43645 will be based on the circumstances facing the utility under its current ownership and management structure. Any obligations the Commission imposes on the water utility under Citizens Energy Group's ownership and management should be set forth in the final order in this Cause.

Rebuttal Witnesses: Carey B. Lykins, John R. Brehm



**Recommendations of OUCC Witness Walter R. Drabinski**

21. OUCC Recommendation: Within 60 days from the date of closing the proposed transaction, CEG should file a report with the IURC and copy to the OUCC specifying the metrics that CEG proposes to use to track savings realized from the consolidation of the gas, water, sewer and other operations as well as the costs incurred.

Joint Petitioners' Response: The reporting obligations set forth above are generally acceptable to Citizens Energy Group; however, Citizens Energy Group would like to discuss with the OUCC the metrics that will be designed to track savings and the format of reports to be provided.

Rebuttal Witness: Aaron D. Johnson

22. OUCC Recommendation: Within 180 days from the date of closing the proposed transaction, CEG file a report with the IURC and copy to the OUCC providing the status of the implementation of the consolidation, the savings realized by categories consistent with Exhibit TJF-2, support for the savings, the costs incurred and support for the costs. Subsequent to the initial report, reports on the implementation, savings realized and cost incurred should be provided on a semi-annual basis for a period of at least four (4) years.

Joint Petitioners' Response: The reporting obligations set forth above are generally acceptable to Citizens Energy Group; however, Citizens Energy Group would like to discuss with the OUCC the metrics that will be designed to track savings and the format of reports to be provided.

Rebuttal Witness: Aaron D. Johnson

**Recommendations of OUCC Witness Charles E. Patrick**

23. OUCC Recommendation: The Commission approve the assignment of any DOW Interlocal Agreements and franchise rights to the Board.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

24. OUCC Recommendation: The Commission approval of the Board's assumption of DOW's obligations in the Interlocal Agreements and franchise rights.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

25. OUCC Recommendation: The Commission approval of the transfer of agreements for wastewater treatment and disposal (Wastewater Interlocal Agreements) to the Authority.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

26. OUCC Recommendation: The Commission approval of the Board's assumption of existing DOW debt.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

27. OUCC Recommendation: The Commission decline to pre-approve debt service payments as a revenue requirement in future rate cases on the estimated debt the water utility will seek for working capital.

Joint Petitioners' Response: Citizens Energy Group clarifies in its rebuttal testimony that it is not seeking approval in this proceeding of debt service payments for working capital.

Rebuttal Witness: John R. Brehm

28. OUCC Recommendation: The Commission decline to pre-approve debt service payments in future rate cases on the estimated debt the water utility seeks on estimated Capex.

Joint Petitioners' Response: Citizens Energy Group clarifies in its rebuttal testimony that it is not seeking approval in this proceeding of debt service payments for future debt issuances to fund capital expenditures.

Rebuttal Witness: John R. Brehm

29. OUCC Recommendation: The Commission approve debt service payments for the water utility in future rate cases on \$4,392,000 of initial cash.

Joint Petitioners' Response: Although Citizens Energy Group is not seeking approval in this proceeding of debt service payments for working capital, it believes the amount of working capital the OUCC proposes is wholly inadequate.

Rebuttal Witness: John R. Brehm

30. OUCC Recommendation: The Commission approval of the Board's assumption of existing Sanitary District debt.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

31. OUC Recommendation: The Commission approval of the debt service payments in future rate cases on the purchase price of \$262,600,000 (\$285,595,000 which includes purchase of Sanitary District wastewater assets, associated costs of issuance and debt service reserve fund).

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

32. OUC Recommendation: The Commission decline to pre-approve debt service payments in future rate cases for the estimated debt the Authority will seek for working capital.

Joint Petitioners' Response: The Authority clarifies in its rebuttal testimony that it is not seeking approval in this proceeding of debt service payments for working capital.

Rebuttal Witness: John R. Brehm

33. OUC Recommendation: The Commission decline to pre-approve debt service payments in future rate cases on the estimated debt the Authority seeks on estimated Capex.

Joint Petitioners' Response: The Authority clarifies in its rebuttal testimony that it is not seeking approval in this proceeding of debt service payments for future debt issuances to fund capital expenditures.

Rebuttal Witness: John R. Brehm

34. OUC Recommendation: The Commission approve of debt service payments for the Authority in future rate cases on \$4,500,000 of initial cash.

Joint Petitioners' Response: Although the Authority is not seeking approval in this proceeding of debt service payments for working capital, it believes the amount of working capital the OUC proposes is wholly inadequate.

Rebuttal Witness: John R. Brehm

35. OUC Recommendation: The Commission approval of recovery of the debt service payments on the City's wastewater utility GO Bonds in future Authority rate cases.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

36. OUC Recommendation: The Commission decline the use of a balancing account in conjunction with the Rate Adjustment Mechanism.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 15.

Rebuttal Witness: LaTona S. Prentice

37. OUCC Recommendation: The Commission approval of a 2.0% depreciation rate for DOW acquired Utility Plant in Service ("UPIS") by CEG.

Joint Petitioners' Response: Citizens agrees to use a 2.0 percent depreciation rate for water utility plant in service.

Rebuttal Witness: John R. Brehm

38. OUCC Recommendation: The Commission approval of a 2.5% depreciation rate for Sanitary District acquired UPIS by the Authority.

Joint Petitioners' Response: The Authority agrees to use a 2.5 percent depreciation rate for wastewater utility plant in service.

Rebuttal Witness: John R. Brehm

39. OUCC Recommendation: The Commission require CEG to repay the City for any outstanding short-term DOW debt owed to the City, if the Commission grants recovery of the DOW [amount] in the working capital revenue requirement.

Joint Petitioners' Response: Citizens Energy Group recognizes the City's advancement of money from its general fund to the Department of Waterworks presents a serious dilemma. However, it is impossible to comment on whether the final order in Cause No. 43645 will present a partial solution to that dilemma, absent the ability to review the entirety of the order.

Rebuttal Witness: Carey B. Lykins

**Recommendations of OUCC Witness Margaret A. Stull**

40. OUCC Recommendation: The Commission require CEG and the Authority to record the acquisition of water and wastewater assets in the same detail, both classification and value, as reflected in the City's books and records at closing.

Joint Petitioners' Response: Citizens Energy Group and the Authority plan to maintain the books and records of the Water and Wastewater Systems, respectively, in accordance with Generally Accepted Accounting Principles and the NARUC Uniform System of Accounts. Under Citizens Energy Group's and the Authority's ownership, the visibility

and usefulness of the water and wastewater utilities' books and records will improve for all stakeholders, including the OUCC and the Commission, and represents another public interest benefit that results from the proposed transfer.

Rebuttal Witness: John R. Brehm

41. OUCC Recommendation: The Commission require CEG to record the amount of CIAC and amortized CIAC that exists on DOW's balance sheet at the date of closing on the acquisition.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

42. OUCC Recommendation: The Commission require CEG to amortize CIAC in the same manner that DOW employed.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

43. OUCC Recommendation: For the water utility, the Commission require CEG to record contributions of plant and cash in accordance with NARUC guidelines and DOW's current practice.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

44. OUCC Recommendation: The Commission require that total "connection fees" (system distribution charge or "SDC") collected as of the closing date be recorded on the Authority's books as CIAC along with any other known contributions of plant or cash.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 62.

Rebuttal Witness: John R. Brehm

45. OUCC Recommendation: The Commission require the Authority to amortize CIAC at 2.5% per annum.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

46. OUC Recommendation: The Commission require that immediately after the acquisition the Authority begin recording CIAC in accordance with NARUC guidelines and maintain property records that can be reviewed by the Commission and the OUC.

Joint Petitioners' Response: See Joint Petitioners' response to OUC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

47. OUC Recommendation: The Commission require CEG and the Authority to record as an acquisition adjustment the difference between net utility plant recorded at closing and the pre-determined purchase price.

Joint Petitioners' Response: See Joint Petitioners' response to OUC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

48. OUC Recommendation: The Commission require CEG and the Authority to amortize any resulting acquisition adjustments according to GAAP guidelines and prohibit CEG and the Authority from including this amortization as part of their revenue requirements in future rate cases.

Joint Petitioners' Response: The Authority accepts this recommendation. However, the amortization of any acquisition adjustment recorded with respect to the Wastewater System may well be a negative amount. Consequently, any negative or positive amount of amortization should be excluded from future rates.

Rebuttal Witness: John R. Brehm

49. OUC Recommendation: The Commission require CEG and the Authority to maintain their books and records in accordance with NARUC's USOA.

Joint Petitioners' Response: See Joint Petitioners' response to OUC Recommendation No. 40.

Rebuttal Witness: John R. Brehm

50. OUC Recommendation: The Commission find that any customer deposits held by the City at closing should either be paid back to customers or transferred to CEG or the Authority.

Joint Petitioners' Response: Joint Petitioners agree with the recommendation that any deposits held at the date of closing will be transferred to Citizens Energy Group or the Authority, as applicable.

Rebuttal Witness: Michael D. Strohl

51. OUCC Recommendation: The Commission approve the proposed 10% limitation on the total amount of allocated shared costs.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

52. OUCC Recommendation: The Commission require review of the shared cost allocations every three to five years to verify that they continue to be appropriate.

Joint Petitioners' Response: Joint Petitioners accept this recommendation.

Rebuttal Witness: John R. Brehm

53. OUCC Recommendation: The Commission prohibit CEG from contracting with an affiliated for-profit unregulated company to operate or provide shared services to the water or wastewater utilities.

Joint Petitioners' Response: Citizens Energy Group opposes the recommended prohibition. Citizens Energy Group has in the past successfully used separate unregulated entities to lower operating costs for its regulated utilities.

Rebuttal Witness: Aaron D. Johnson

54. OUCC Recommendation: The Commission require that water meter reading costs be allocated to the wastewater utility as well as the water utility.

Joint Petitioners' Response: This condition is acceptable.

Rebuttal Witness: John R. Brehm

55. OUCC Recommendation: The Commission require CEG's water utility to make the recommended corrections to the Swimming Pool Filling Service Fee (Appendix A) and to the Delinquent Account Collection Charge (Appendix B) or file a thirty day filing with the Commission to change them.

Joint Petitioners' Response: Citizens Energy Group agrees with this recommendation.

Rebuttal Witness: LaTona S. Prentice

56. OUCC Recommendation: The Commission require CEG's water utility to reclassify the "Connection Charges" included on page 102B of Appendix A and reflect them in Appendix A.

Joint Petitioners' Response: Citizens Energy Group agrees with this recommendation.

Rebuttal Witness: LaTona S. Prentice

57. OUCC Recommendation: The Commission require CEG's water utility bad check charge to be based upon CEG's current bad check charge of \$11.

Joint Petitioners' Response: Citizens Energy Group agrees with this recommendation.

Rebuttal Witness: LaTona S. Prentice

58. OUCC Recommendation: The Commission prohibit the water utility from filing a general rate case prior to January 1, 2014 except for emergencies.

Joint Petitioners' Response: Citizens Energy Group agreed in the water system asset purchase agreement that the rates it initially adopts for the water utility will remain in effect for two years after closing. Agreeing that a general rate case will not be filed until January 1, 2014, could materially extend the duration of the rate increase moratorium and is therefore unacceptable given the financial condition of the water utility and financial projections Citizens Energy Group relied on in negotiating an acceptable rate increase moratorium.

Rebuttal Witness: John R. Brehm

59. OUCC Recommendation: The Commission decline to approve section 8.14 of the Water APA or section 8.15 of the Wastewater APA, or clarify that approval of the purchase agreements shall not be construed as binding on the Commission to decrease its discretion or allow recovery in rates of expenses it considers unreasonable, imprudent, unlawful or excessive, or otherwise not conforming with Indiana ratemaking principles.

Joint Petitioners' Response: The sections of the Asset Purchase Agreements cited in the recommendation are not intended to and would not bind the Commission. They simply would impose an obligation on Citizens Energy Group or the Authority, as applicable, "from time to time to request IURC approval of rates and charges that produce sufficient revenues to pay" certain obligations undertaken in the Asset Purchase Agreements. Nothing in either section would impose an obligation on the Commission to approve a future request that Citizens Energy Group or the Authority might make pursuant to Section 8.14 or 8.15. For a discussion of the items the Board and the Authority are seeking approval in this proceeding to recover through rates, please see the rebuttal testimony of John R. Brehm.

Rebuttal Witness: John R. Brehm

60. OUCC Recommendation: The Commission approve the proposed 10.75% across-the-board increases to user rates through 2013.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.



61. OUC Recommendation: The Commission prohibit the escalation of the "connection fee" based on annual changes to the CPI.

Joint Petitioners' Response: Annual escalation of this fee is an integral part of the Wastewater System rate structure that was approved by the City-County Council and that the Authority is seeking approval to adopt in this proceeding. All revenue to be generated by this rate structure was an essential part of the analysis that led to the terms of the transaction between the Authority and the City.

Rebuttal Witness: John R. Brehm

62. OUC Recommendation: The Commission require the "connection" fee currently reflected in the Authority's wastewater tariff be re-designated as an SDC and the Authority be required to record any such fees as CIAC.

Joint Petitioners' Response: Among other issues raised by this recommendation, the pro-forma revenues used to develop the need for the Sanitary District's 10.75% rate increase through 2013 include connection fees. Excluding connection fees from revenue on a going forward basis would require that the other rates and charges for sewer service increase by more than 10.75% annually to meet the Wastewater System's revenue requirements. The Authority believes more analysis of the charge needs to be completed to determine how much of the charge is designed to recover direct and indirect labor and equipment costs. The proper time to address this question is in the Authority's first general rate case. That will be the appropriate forum for all parties to put on evidence to precisely determine the underlying costs this fee is meant to address.

Rebuttal Witness: John R. Brehm.

63. OUC Recommendation: The Commission restrict the use of SDC funds to pay for growth-related capital projects, which would include costs related to the Septic Tank Elimination Program (STEP).

Joint Petitioners' Response: See Joint Petitioners' response to OUC Recommendation No. 62.

Rebuttal Witness: John R. Brehm

64. OUC Recommendation: The Commission set the initial SDC at \$2,500.

Joint Petitioners' Response: See Joint Petitioners' response to OUC Recommendation No. 62.

Rebuttal Witness: John R. Brehm

65. OUCC Recommendation: The Commission require the water reconnection fee be reviewed and revised as necessary to recover only the actual costs of this activity.

Joint Petitioners' Response: Once the Authority has had the opportunity to operate both utilities and determine the actual cost of disconnecting and reconnecting a customer's water service and a customer's wastewater service, we will propose updated reconnection charges.

Rebuttal Witness: LaTona S. Prentice

66. OUCC Recommendation: The Commission require the wastewater reconnection fee be eliminated prior to approval of the wastewater tariff.

Joint Petitioners' Response: The Authority opposes this recommendation.

Rebuttal Witness: LaTona S. Prentice

67. OUCC Recommendation: The Commission require the wastewater late reporting charge be removed from the tariff and replaced with a cost-based fee and that the description of this fee be corrected.

Joint Petitioners' Response: The Authority opposes this recommendation.

Rebuttal Witness: LaTona S. Prentice

68. OUCC Recommendation: The Commission require the wastewater utility to file a general rate case in 2013 using a test year ended December 31, 2012.

Joint Petitioners' Response: The Authority opposes this recommendation.

Rebuttal Witness: John R. Brehm

69. OUCC Recommendation: The Commission establish a sub-docket to address the proposed water and wastewater rules and regulations.

Joint Petitioners' Response: Citizens Energy Group and the Authority intend to work within the framework of the Terms and Conditions for service approved in this Cause during the rate moratoriums. During that period, the utilities will consider whether any changes need to be made. Any revisions deemed necessary as part of this process, will then be proposed as part of the applicable utility's first rate case.

Rebuttal Witness: LaTona S. Prentice

70. OUCC Recommendation: The Commission require the City's current rules and regulations be in effect until the sub-docket process is complete.

Joint Petitioners' Response: The City's wastewater utility does not have current rules and regulations in effect. See also Joint Petitioners' response to OUCC Recommendation No. 69.

Rebuttal Witness: LaTona S. Prentice

71. OUCC Recommendation: The Commission require that the deferred late payment program be available to all CEG and Authority customers.

Joint Petitioners' Response: Citizens Energy Group and the Authority will make the deferred late payment program available to all senior citizen water and wastewater utility customers as soon as reasonably practicable, but it would be imprudent to make the program available to "all" customers.

Rebuttal Witness: Michael D. Strohl

**Recommendations of OUCC Witness Roger A. Pettijohn**

72. OUCC Recommendation: Affirm the Authority's technical ability to operate the waste treatment facilities through its association and operations contract with United.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

73. OUCC Recommendation: Approve on an interim basis Joint Petitioners' Rules and Regulations as acquired by the City in this Cause until a sub-docket can be convened to address CEG's long-term changes, whatever they may be.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 69.

Rebuttal Witness: LaTona S. Prentice

74. OUCC Recommendation: Advise the Authority to submit a thirty (30)-day filing if it determines the need for a cost-based tap fee, with supporting documentation containing material, labor and administrative costs.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 69.

Rebuttal Witness: LaTona S. Prentice

75. OUCC Recommendation: Require the Authority to submit a CTA application consistent with 170 I.A.C. 8.5-3, et seq., and I.C. § 8-1-2-89 for the CTA area currently being served by the Sanitary District outside its boundaries.

Joint Petitioners' Response: The Authority believes it has met all of the requirements of Indiana Code § 8-1-2-89 for the issuance of a CTA.

Rebuttal Witness: James O. Dillard

**Recommendations of OUCC Witness Harold L. Rees**

76. OUCC Recommendation: Recommend that the Commission find that CEG has the technical ability to own and operate the water system.

Joint Petitioners' Response: This recommendation is supportive of Joint Petitioners' case in chief.

77. OUCC Recommendation: Before granting full approval of the proposed transaction, the Commission should be assured that CEG has responded adequately to the issues and potential problems discussed on pages 4 – 14 of Mr. Rees's testimony either through Joint Petitioners' rebuttal testimony or another filing. The issues include retention of skilled manpower, retention of technical training support, transfer of intellectual property used by the DOW or Veolia, ability to handle the technology, understanding the needs of the public health, and furnishing the capital resources to make improvements in the system.

Joint Petitioners' Response: Joint Petitioners believe the issues raised by Mr. Rees have been adequately addressed in rebuttal testimony.

Rebuttal Witness: Aaron D. Johnson, Lindsay C. Lindgren

78. OUCC Recommendation: Defer the matter of water rules and regulations to a sub-docket. Continue current rules and regulations on an interim basis.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 69.

Rebuttal Witness: LaTona S. Prentice

79. OUCC Recommendation: Joint Petitioners should be required to commit to the ongoing support of the Service Advisory Board and the Technical Advisory Group.

Joint Petitioners' Response: See Joint Petitioners' response to OUCC Recommendation No. 7.

Rebuttal Witness: Aaron D. Johnson



**BEFORE THE  
INDIANA UTILITY REGULATORY COMMISSION**

**JOINT PETITION OF THE BOARD OF DIRECTORS FOR )  
UTILITIES OF THE DEPARTMENT OF PUBLIC )  
UTILITIES OF THE CITY OF INDIANAPOLIS, D/B/A )  
CITIZENS ENERGY GROUP, CWA AUTHORITY, INC., )  
THE CITY OF INDIANAPOLIS AND ITS DEPARTMENT )  
OF WATERWORKS AND ITS SANITARY DISTRICT FOR )  
APPROVALS IN CONNECTION WITH THE PROPOSED )  
TRANSFER OF CERTAIN WATER UTILITY ASSETS TO )  
THE BOARD AND THE PROPOSED TRANSFER OF )  
CERTAIN WASTEWATER UTILITY ASSETS TO THE )  
AUTHORITY, INCLUDING: (A) APPROVAL OF INITIAL )  
RATES AND RULES FOR WATER AND WASTEWATER )  
SERVICE , AS WELL AS THE TERMS OF CERTAIN )  
AGREEMENTS FOR WASTEWATER TREATMENT AND )  
DISPOSAL SERVICE; (B) APPROVAL OF AN )  
ENVIRONMENTAL COMPLIANCE PLAN UNDER IND. )  
CODE 8-1-28 AND AN ADJUSTMENT MECHANISM FOR )  
WASTEWATER RATES TO PROVIDE TIMELY )  
RECOVERY OF COSTS NECESSARY TO COMPLY IN )  
WHOLE OR IN PART WITH THE SAFE DRINKING )  
WATER ACT AND/OR CLEAN WATER ACT; (C) )  
APPROVAL OF PROPOSED ALLOCATIONS OF )  
CORPORATE SUPPORT SERVICES COSTS AMONG )  
AFFECTED UTILITIES; (D) APPROVAL OF AN )  
OPERATING AGREEMENT BETWEEN CITIZENS )  
ENERGY GROUP AND CWA AUTHORITY, INC.;(E) )  
APPROVAL OF DEPRECIATION RATES AND OTHER )  
ACCOUNTING MATTERS RELATED TO THE WATER )  
AND WASTEWATER ASSETS; AND (F) ANY OTHER )  
APPROVALS NEEDED IN CONNECTION THEREWITH )**

**CAUSE NO. 43936**

**VERIFIED REBUTTAL TESTIMONY  
of  
AARON D. JOHNSON**

**On  
Behalf of  
Petitioners,**

**Citizens Energy Group and  
CWA Authority, Inc.**

**Petitioners' Exhibit ADJ-R**

1    **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A.    My name is Aaron D. Johnson. My business address is 2020 North Meridian  
3          Street, Indianapolis, Indiana.

4    **Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5    A.    I am employed by the Board of Directors for Utilities of the Department of Public  
6          Utilities of the City of Indianapolis d/b/a Citizens Energy Group. I am Vice  
7          President of Integration and Associate Counsel.

8    **Q.     ARE YOU THE SAME AARON D. JOHNSON THAT PREVIOUSLY**  
9          **SPONSORED TESTIMONY IN THIS CAUSE?**

10   A.    Yes I am. I sponsored supplemental direct testimony regarding the terms of the  
11          "Settlement Agreement to Transition Management & Operations of the City of  
12          Indianapolis Water System from Veolia Water."

13   **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS STAGE OF**  
14          **THE PROCEEDING?**

15   A.    The purpose of my rebuttal testimony is to respond to certain recommendations  
16          made in the prefiled testimony of the Indiana Office of Utility Consumer  
17          Counselor. In particular, I will respond to Mr. Drabinski's recommendations that  
18          Citizens Energy Group file reports regarding the estimated savings to be achieved  
19          as a result of the acquisitions of the City's water and wastewater systems. I also  
20          will address certain recommendations made by OUCC witness Harold L. Rees  
21          regarding the integration of the water and wastewater systems. In addition, I will  
22          describe the benefits of the agreement filed by Intervenor, United Water Services

1 Indiana LLC ("United"). I also respond to the testimony filed by the Service Area  
2 Advisory Board and certain statements made in the Consumer Ratepayer's  
3 testimony.

4 **RECOMMENDATIONS MADE BY WALTER DRABINSKI**

5 **Q. HAVE YOU READ THE TESTIMONY OF OUCC WITNESS WALTER P.**  
6 **DRABINSKI REGARDING THE SYNERGY ANALYSIS SPONSORED BY**  
7 **PETITIONERS' WITNESS FLAHERTY.**

8 A. Yes, I have.

9 **Q. WHAT RECOMMENDATIONS DOES MR. DRABINSKI MAKE?**

10 A. Mr. Drabinski makes the following two recommendations:

11 1. Within 60 days from the date of closing the  
12 proposed transaction, CEG should file a report with the IURC and  
13 copy to the OUCC specifying the metrics that CEG proposes to use  
14 to track savings realized from the consolidation of the gas, water,  
15 sewer and other Operations as well as the costs incurred.

16  
17 2. Within 180 days from the date of closing the  
18 proposed transaction, CEG should file a report with the IURC and  
19 copy to the OUCC providing the status of the implementation of  
20 the consolidation, the savings realized by categories consistent  
21 with Exhibit TJF-2, support for the savings, the costs incurred and  
22 support for the costs. Subsequent to the initial report, reports on the  
23 implementation, savings realized and cost incurred should be  
24 provided on a semi-annual basis for a period of at least four (4)  
25 years.

26  
27 **Q. IS CITIZENS ENERGY GROUP WILLING TO PROVIDE THE**  
28 **REPORTS RECOMMENDED BY MR. DRABINSKI?**

29 A. Yes. Citizens Energy Group understands that the OUCC, the Commission and  
30 other interested stakeholders will have an ongoing interest in reviewing and



1 understanding savings achieved as a result of the acquisitions. In general,  
2 Citizens Energy Group has no objections to complying with the reporting  
3 requirements as proposed and described by Mr. Drabinski; however, some  
4 variations to the reporting may be required as necessitated by the conclusion of  
5 the design phase.

6 **Q. DO ANY OTHER WITNESSES MAKE RECOMMENDATIONS**  
7 **REGARDING THE ESTABLISHMENT OF REPORTING**  
8 **REQUIREMENTS?**

9 A. Yes. OUCC witness Scott A. Bell recommends that:

10 [T]he Authority and CEG continually analyze the currently  
11 approved CSO Projects detailed in the LTCP and look for design  
12 efficiencies and cost savings as they strive to complete the  
13 remaining projects. *Also, I recommend that the Authority and CEG*  
14 *strive to attain and document construction costs savings for the*  
15 *remaining CSO Projects.*

16  
17 (emphasis added)  
18

19 **Q. IS CITIZENS ENERGY GROUP WILLING TO STRIVE TO ATTAIN**  
20 **AND DOCUMENT CONSTRUCTION COSTS SAVINGS FOR THE**  
21 **REMAINING CSO PROJECTS?**

22 A. Yes. Citizens Energy Group and the Authority will strive to complete the CSO  
23 control measures as economically as possible and are willing to document any  
24 construction costs savings as suggested by Mr. Bell.

25 **PILOT PAYMENTS**

26 **Q. OUCC WITNESS KAUFMAN STATES THAT THE OUCC ACCEPTS**  
27 **PETITIONERS' PROPOSED PILOT PAYMENT SCHEDULE, IF THE**

1        **AUTHORITY MAY NOT SEEK IN FUTURE RATES TO RECOVER**  
2        **PILOT PAYMENTS GREATER THAN THOSE IT HAS AGREED TO**  
3        **PAY THE CITY. DOES CITIZENS ENERGY GROUP ACCEPT THE**  
4        **OUCC'S RECOMMENDATION?**

5    A.    Yes. The Asset Purchase Agreement specifically provides that "Purchaser is  
6        assured such stream of PILOT Payments shall not be more, and the City is  
7        assured that such payments shall not be less. . . ." I would note that the PILOT  
8        Payments being referred to are those that will be paid by the Authority to the City  
9        of Indianapolis. I would not expect Mr. Kaufman's proposed limitation to apply  
10       to PILOT or property tax payments that may be imposed and lawfully due to  
11       taxing authorities not covered by the PILOT agreement (for instance, if Hamilton  
12       County were to require a PILOT for assets located in that county).

13    **RECOMMENDATIONS REGARDING INTEGRATION OF THE WATER**  
14    **SYSTEM**

15  
16    **Q.    OUCC WITNESS REES DISCUSSES A NUMBER OF ISSUES**  
17        **REGARDING THE INTEGRATION OF THE WATER SYSTEM INTO**  
18        **CITIZENS ENERGY GROUP. HAVE YOU REVIEWED MR. REES'**  
19        **TESTIMONY?**

20    A.    Yes.

21    **Q.    MR. REES RECOMMENDS THAT CITIZENS ENERGY GROUP**  
22        **SHOULD DETERMINE WHAT TRAINING VEOLIA HAS USED TO**  
23        **"GET NEW PEOPLE UP TO SPEED." WILL CITIZENS ENERGY**  
24        **GROUP REVIEW VEOLIA'S TRAINING PROCEDURES?**

1 A. Yes. As part of the integration effort, Citizens Energy Group will ensure that  
2 Veolia's "know how" with respect to the operation of the water system is  
3 transferred to Citizens Energy Group. In my view, that includes training methods.  
4 Citizens Energy Group's Human Resources integration planning personnel have  
5 been meeting with Veolia's Human Resources Manager, Jeff McIntyre, in part to  
6 discuss and learn more about Veolia's training methods and systems.

7 In addition to learning from Veolia, I also would note that Citizens  
8 Energy Group has a wealth of experience in training new employees. As  
9 referenced by Mr. Rees, Citizens Energy Group relies on both on-the-job training  
10 and training by outside contractors. Citizens Energy Group will rely on this  
11 experience in training new water employees. Citizens Energy Group also  
12 maintains technical training and operator qualification capabilities for its gas  
13 operations and would expect to extend these capabilities to water and wastewater  
14 operations. The current program consists of two dedicated employees providing  
15 well defined programs for gas service specialists, dispatch, machine operation,  
16 leak survey, commercial and industrial meter specialists, meter reading, cathodic  
17 protection. Additionally, Citizens Energy Group offers up to \$6,000 in  
18 educational assistance for approved job or industry related courses taken at  
19 accredited institutions.

20 **Q. IN YOUR OPINION, IS CITIZENS ENERGY GROUP "AGGRESSIVELY**  
21 **PREPAR[ING] ITSELF" FOR THE ACQUISITION OF THE WATER**  
22 **SYSTEM AS SUGGESTED BY MR. REES?**

1 A. Yes. Citizens Energy Group has engaged in a very detailed and thorough  
2 integration process. This process has been broken up into five phases: 1)  
3 framework development; 2) analysis; 3) design; 4) implementation planning; and,  
4 5) implementation. Within this process, Citizens Energy Group has now  
5 completed its framework development and analysis phases. We are currently  
6 executing our design phase. The purpose of this phase is to design the activities  
7 and processes of the new organization. The key deliverables of this phase  
8 generally include: 1) the operating model; 2) key performance indicators; 3)  
9 business and technology requirements; 4) redesigned process maps; 5)  
10 organization structure and chart; and, 6) operating budgets. Because we do not  
11 know when the transaction may receive all of the necessary approvals, we have  
12 aggressively planned these activities to conclude on a presumption that the  
13 transaction could be ready to close as early as April 30, 2011. Therein, the  
14 various integration teams, Energy Operations, Water Operations, Administration,  
15 Capital Projects & Engineering, Finance, Customer Relations, Community  
16 Relations & Governmental Affairs, and Shared Field Services, have been tasked  
17 with several deadlines within the design phase. In general, operating models are  
18 due January 28, 2011. Business and technology requirements are due February  
19 18, 2011. The organizational structure is expected to be completed by February  
20 25, 2011. The organizational chart, operating budgets and key performance  
21 indicators are due March 11, 2011. All other deliverables are expected March 25,  
22 2011. It should be noted that these are preliminary due dates and may change

1 depending upon actual experiences within the various teams or changes that  
2 impact our projected closing date.

3 **Q. WILL CITIZENS ENERGY GROUP CONTINUE TO WORK WITH THE**  
4 **TECHNICAL ADVISORY GROUP ("TAG") AND THE SERVICE**  
5 **ADVISORY BOARD ("SAB") AS RECOMMENDED BY MR. REES?**

6 A. Yes. Citizens Energy Group believes in the value of having a long range regional  
7 and local comprehensive plan for its utilities, and the value that advisory groups  
8 can add to the process. There are a number of groups that advise and provide  
9 input to the water and wastewater utility from time-to-time, with varying levels of  
10 formality to their organization. Accordingly and in general, Citizens Energy  
11 Group intends to seek input from those groups and others that may come into  
12 existence from time-to-time. Due to the formality and nature of the SAB, I will  
13 discuss its role in greater detail later in my testimony.

14 **Q. DOES CITIZENS ENERGY GROUP INTEND TO PERIODICALLY**  
15 **MONITOR ITS EMPLOYEES TO ENSURE THAT THEY ARE "UP TO**  
16 **SPEED WITH THE REQUIREMENTS OF THE TECHNOLOGY AND**  
17 **OPERATIONS" OF THE WATER SYSTEM?**

18 A. Yes. Citizens Energy Group continually strives to educate its current employees  
19 regarding updates in technology and operations advances. For example, pursuant  
20 to federal regulations, Citizens Energy Group's Gas Division field service  
21 employees are required to complete an Operator Qualification process every three  
22 years to ensure their operational knowledge and skills are current. Technical

1       trainers and field services supervisors regularly undergo train-the-trainer training  
2       through the Midwest Energy Association. Citizens Energy Group will provide the  
3       same or similar opportunities to the employees responsible for operating the water  
4       system.

5       **Q.   WILL CITIZENS ENERGY GROUP ENSURE THE TRANSFER OF AN**  
6       **ADEQUATE NUMBER OF CERTIFIED OPERATORS AND OTHER**  
7       **SUPPORTING RESOURCES TO OPERATE THE WATER SYSTEM?**

8       **A.**   Yes. The Settlement Agreement reached with Veolia Indianapolis requires that it  
9       facilitate the transfer and employment of any Veolia Indianapolis managers or  
10      personnel whom Citizens Energy Group desires to hire and who may desire to be  
11      employed by Citizens Energy Group. Veolia Indianapolis has agreed to have no  
12      covenant not to compete or other restriction on Citizens Energy Group hiring any  
13      of its employees in connection with the operation of the water system. To date,  
14      Veolia has been extremely cooperative with respect to providing Citizens Energy  
15      Group access to its employees and I do not foresee a problem with respect to  
16      hiring necessary personnel. On January 25, 2011 Citizens Energy Group sent  
17      informational packets to Veolia employees that described Citizens Energy Group  
18      and invited employees to submit resumes. All Veolia employees who submit  
19      resumes will be interviewed. Citizens Energy Group also is keenly aware of the  
20      need to retain and attract an adequate number of certified operators so that there  
21      has been and will be a specific focus on this group.

22      **OUCC RECOMMENDATIONS REGARDING "FAIR MARKET VALUE"**  
23      **LANGUAGE IN THE ASSET PURCHASE AGREEMENTS**

1  
2 **Q. HAVE YOU READ THE TESTIMONY OF OUCC WITNESS KAUFMAN**  
3 **REGARDING CONCERNS HE HAS WITH RESPECT TO CERTAIN**  
4 **LANGUAGE OF THE ASSET PURCHASE AGREEMENTS?**

5 A. Yes, I have.

6 **Q. WHAT IS THE INTENT OF THE PROVISIONS IN THE ASSET**  
7 **PURCHASE AGREEMENTS THAT PROVIDES: "PURCHASER AND**  
8 **CITIZENS AGREE THAT IN THE EVENT OF ANY SUCH SALE OR**  
9 **DISPOSITION THE CITY SHALL HAVE A RIGHT OF FIRST REFUSAL**  
10 **TO PURCHASE THE SYSTEM AT ITS THEN FAIR MARKET VALUE,**  
11 **WHICH SHALL INCLUDE PROVISIONS FOR THE ASSUMPTION OR**  
12 **FULL PAYMENT OF ANY OUTSTANDING BOND FINANCINGS OR**  
13 **OTHER INTEREST BEARING OBLIGATIONS?"**

14 A. First, Citizens Energy Group is of the strong belief that the water and wastewater  
15 Systems, as defined by the respective Asset Purchase Agreements, may not be  
16 sold. Citizens Energy Group is accepting the water and wastewater Systems as  
17 trustee of a public charitable trust for the water and wastewater Systems,  
18 respectively. The purposes of these public charitable trusts are: a) to provide  
19 reasonable water (wastewater) services at a reasonable cost, (with such  
20 reasonableness in each case, to be determined by the Commission) to the  
21 inhabitants of the City, as beneficiaries of the trust, in substantially the same  
22 manner as the public charitable trust is providing gas, steam and chilled water  
23 services currently held and operated by Citizens Energy Group and b) *to protect*

1        *the City and its inhabitants against further sale or disposition of the System or*  
2        *Acquired Assets, and forever from private ownership, control or partisan*  
3        *political governance;* and further coordinate with other utility properties that may  
4        be held, owned and/or operated by the Citizens Energy Group Board or its  
5        Affiliates for the achievement of synergies.

6                As acknowledged by the Citizens Energy Group and the City in section  
7        8.08(d) of the wastewater Asset Purchase Agreement and section 8.09(d) of the  
8        water Asset Purchase Agreement, while the above stated purpose prohibits further  
9        sale or disposition of the Systems, the City nevertheless felt it was necessary to  
10       receive a right of first refusal to rebut political critics at the time who were  
11       claiming that Citizens Energy Group would simply sell the Systems at a future  
12       date with disregard to the public charitable trust.

13               It is important to note that while Citizens Energy Group is prohibited from  
14       selling the System, Citizens is not prohibited from selling Surplus Property as  
15       defined by the Asset Purchase Agreements so long as such sale does not prevent  
16       Citizens Energy Group from providing reasonable water and wastewater services  
17       to the inhabitants of the City. The City's right of first refusal does not extend to  
18       Surplus Property.

19       **Q.    MR. KAUFMAN RECOMMENDS THAT THE AUTHORITY AND CITY**  
20       **COULD AGREE THAT "THE TERM 'FAIR MARKET VALUE' SHOULD**  
21       **INCLUDE A REDUCTION FOR ANY PLANT OR OTHER ASSETS PAID**  
22       **FOR BY THE RATEPAYERS." WOULD SUCH AN AGREEMENT BE**



**ACCEPTABLE TO CITIZENS ENERGY GROUP?**

A. No. First and as stated above, Citizens Energy Group may not sell the Systems. Second, to dispose of the Systems, assuming it were possible, for less than their fair market value would be a breach of Citizens Energy Group's fiduciary duty to its beneficiaries. Citizens Energy Group is purchasing the Systems for the inhabitants of the City of Indianapolis at fair market value. After these Systems are purchased, they will be owned by Citizens Energy Group as trustee for the benefit of the inhabitants of the City of Indianapolis in accordance with all of the fiduciary obligations such a relationship would impose. Among these fiduciary obligations is the duty to preserve trust property and to make it productive. Therefore, if such unforeseeable circumstances were to occur that would require a sale of the Systems, Citizens is duty bound to seek fair market value for those assets. Third, to have a provision by which the City could acquire the Systems for less than fair market value would provide an incentive to future City officials to attempt to unwind and attack the trusts that are being created. As I stated during the evidentiary hearing, throughout Citizens Energy Group's long history, there have been times when politicians have attempted to sell the assets of the trust to fund certain projects that the politicians may find advantageous at any given point in time, e.g. construction of a downtown mall or stadium. All of these attempts obviously have failed because the City is not in an ownership position to make such a sale; however, these attempts have consumed significant resources of the trust and caused strained relationships between the City and Citizens Energy

1 Group from time-to-time. In addition, the savings and operational improvements  
2 promised as a result of this transaction are being achieved through the creation of  
3 an integrated utility system. Once combined and processes are put in place to  
4 integrate the Systems with Citizens' existing utilities, ripping portions away will  
5 cause grievous harm to the remaining assets.

6 **Q. MR. KAUFMAN STATES THAT THE OUCC'S PROPOSAL IS BASED**  
7 **ON THE CONCERN THAT "IN THE EVENT THAT EITHER OR BOTH**  
8 **OF THE UTILITIES ARE SOLD BACK TO THE CITY AT FAIR**  
9 **MARKET VALUE, ASSUMING IT EXCEEDS THE COST OF DEBT, THE**  
10 **CITY WOULD LIKELY BE REQUIRED TO ISSUE ADDITIONAL DEBT**  
11 **AND WOULD PRESUMABLY INCLUDE THE ANNUAL COST OF**  
12 **THAT DEBT IN FUTURE RATES," WHICH IN TURN, WOULD RESULT**  
13 **IN RATEPAYERS PAYING FOR PLANT TWICE. DO YOU SHARE MR.**  
14 **KAUFMAN'S CONCERN?**

15 **A.** No. Again, these Systems may not be sold once they are in the trust given that the  
16 purpose of the trust is to perpetually operate the Systems for the benefit of the  
17 inhabitants of the City and to prevent partisan political control or private  
18 ownership. Despite this purpose, if the Systems were sold, any proceeds would  
19 belong to the owners, the inhabitants of the City, and would have to be made  
20 available for the owners' benefit. With specific regard to ratepayers paying for  
21 plant, it is well established that customer rates pay for utility service, not the plant  
22 providing the service. The fact that this acquisition is being funded with debt

1 does not change this fact. To the contrary, Citizens Energy Group's financing  
2 actually supports lower customer rates as compared to a traditional acquisition  
3 because if there had been an equity investment the owners would seek an equity  
4 return on that investment, which by necessity, is higher than the cost of debt.

5 **OUCG RECOMMENDATIONS REGARDING USE OF AN**  
6 **UNREGULATED AFFILIATE TO PROVIDE SUPPORT SERVICES**  
7

8 **Q. DOES CITIZENS ENERGY GROUP HAVE ANY CONCERNS WITH**  
9 **THE OUCG'S RECOMMENDATION THAT CITIZENS ENERGY**  
10 **GROUP SHOULD NOT BE PERMITTED TO CREATE A FOR-PROFIT**  
11 **UNREGULATED COMPANY TO OPERATE OR PROVIDE SHARED**  
12 **SERVICES TO THE WATER OR WASTEWATER UTILITIES?**

13 A. Yes. Over the years, Citizens Energy Group has been able to successfully use  
14 separate, unregulated entities to both lower operating costs for the utilities and  
15 provide a source of unregulated funds to benefit the beneficiaries, the community  
16 and ratepayers without relying upon utility rates. As Citizens Energy Group has  
17 successfully used these unregulated entities, it has come before the Commission,  
18 and worked with the OUCG and other intervenors to develop rules and protocols  
19 for how such entities should interact with the regulated utilities so that all interests  
20 are properly served and concerns addressed. If Citizens Energy Group  
21 determined that it was appropriate in the future to create such a relationship, we  
22 would expect these processes and protocols would extend to the water and  
23 wastewater utilities as well.

24 **INTEGRATION OF THE WASTEWATER SYSTEM**

1   **Q.   MR. REES' TESTIMONY REGARDING INTEGRATION LARGELY**  
2       **FOCUSES ON THE WATER SYSTEM. DO YOU EXPECT THAT**  
3       **CITIZENS ENERGY GROUP WILL BE PREPARED TO HANDLE**  
4       **SIMILAR ISSUES ARISING WITH RESPECT TO THE WASTEWATER**  
5       **SYSTEM?**

6    A.   Yes. The Authority will accept assignment of the "Agreement for the Operation  
7       and Maintenance of the Advanced Wastewater Treatment Facilities and  
8       Wastewater and Stormwater Collection System" (the "Management Agreement")  
9       between the City and United Water Services Indiana LLC ("United Water").  
10      Therefore, the same employees that currently operate the wastewater system will  
11      continue to operate the system upon the Authority's acquisition of the system.

12   **Q.   PLEASE DESCRIBE THE AGREEMENT BETWEEN THE AUTHORITY**  
13       **AND UNITED WATER FILED WITH THE COMMISSION ON JANUARY**  
14       **14, 2011, WHICH IS ATTACHED HERETO AS PETITIONERS' EXHIBIT**  
15       **ADJ-R1.**

16   A.   The Authority and United Water entered into the Agreement to clarify certain  
17       issues related to the assignment of the Management Agreement by the City to the  
18       Authority. The Agreement has several components. First, United Water  
19       confirms that the Authority is a permitted assignee of the City's rights and  
20       obligations under the Management Agreement, and agrees to facilitate assignment  
21       of the Management Agreement upon the closing of the water and wastewater  
22       transactions between the City, Citizens and the Authority. Second, the Agreement

1 clarifies that the calculation of United Water's incentive fee under the  
2 Management Agreement is consistent with the past practice of the City and  
3 United Water. Third, the Agreement clarifies certain Management Agreement  
4 provisions concerning inventory and resolves outstanding inventory valuations  
5 issues. Fourth, effective upon closing of the sale of the wastewater system to the  
6 Authority, the Management Agreement is to be modified to allow the Authority or  
7 United Water to terminate the Management Agreement for convenience upon  
8 sixty days notice. Lastly, the Agreement also confirms the transition assistance  
9 that United Water would provide on termination.

10 **Q. WHY DID THE PARTIES NEGOTIATE THE PROVISION TO ALLOW**  
11 **EITHER THE AUTHORITY OR UNITED WATER TO TERMINATE**  
12 **THE MANAGEMENT AGREEMENT UPON SIXTY DAYS NOTICE?**

13 A. First, let me say that Citizens Energy Group currently does not intend to exercise  
14 this provision. The Management Agreement, pursuant to the 2007 amendment,  
15 granted the City the right to terminate the Management Agreement for  
16 convenience in 2013; however, United Water was not granted a similar right.  
17 United Water requested that the termination for convenience provision in the  
18 Management Agreement be amended to be mutual, because operation of the  
19 wastewater system under Citizens Energy Group's model may eventually be  
20 much different than it is today and from what United Water expected when it  
21 originally negotiated the Management Agreement with the City.

22 In making the change, the parties also anticipated that at some point after

1 closing both Citizens Energy Group and United Water would explore possible  
2 amendments to the Management Agreement in an effort to ensure a long-term  
3 contractual relationship, maximize synergies, provide for operational and  
4 customer service excellence and achieve integrated infrastructure planning.  
5 However, if these negotiations prove unsuccessful or unsatisfactory to either party  
6 this provision would allow for an amicable termination and transition under the  
7 Management Agreement.

8 **Q. IN THE EVENT THE MANAGEMENT AGREEMENT WERE**  
9 **TERMINATED BY ONE OF THE PARTIES AT EXPIRATION OR**  
10 **OTHERWISE, DOES CITIZENS ENERGY GROUP HAVE THE ABILITY**  
11 **TO HIRE UNITED WATER EMPLOYEES?**

12 **A.** Yes. The Management Agreement provides:

13 The Company [i.e., United Water] recognizes and  
14 understands that the transition [upon termination] may well result  
15 in the City [now Citizens Energy Group or the Authority]  
16 employing or attempting to employ some or all of the managers or  
17 personnel employed by the Company and performing services at  
18 the System. The Company shall have no covenant not to compete  
19 or other restrictions on the City hiring Company employees  
20 working on the system.

21  
22 The Management Agreement further provides:

23 If the City or the Company terminates this Agreement, the  
24 Company shall, from the date of the notice of termination, make  
25 fully available its managers and employees performing services at  
26 the System for at least six (6) months after the Termination Date . .  
27 . to continue to perform all the operation, maintenance , repair and  
28 management services contemplated in this Agreement. . . . The  
29 Company shall . . . fully cooperate with the City to effectuate such  
30 a transition, including the provision of training and "know-how" in  
31 the procedures and techniques employed by the Company in

1 meeting its obligations. . . .

2  
3 The Authority will step into the shoes of the City with respect to the above  
4 provisions.

5 **Q. IN YOUR OPINION, IS THE COMMISSION'S APPROVAL OF THE**  
6 **AGREEMENT BETWEEN THE AUTHORITY AND UNITED WATER**  
7 **WITH RESPECT TO THE MANAGEMENT AGREEMENT IN THE**  
8 **PUBLIC INTEREST?**

9 A. Yes. The Agreement clarifies certain issues relating to the assignment, provides  
10 flexibility to the parties to craft an amendment in the interest of our community,  
11 and does not modify those provisions of the Management Agreement that would  
12 provide for a safe and smooth transition of the operation of the wastewater system  
13 in the event the Management Agreement were terminated.

14 **SERVICE ADVISORY BOARD TESTIMONY**

15 **Q. DO YOU AGREE WITH MR. GEORGE'S DESCRIPTION REGARDING**  
16 **THE DISCUSSIONS BETWEEN CITIZENS ENERGY GROUP AND THE**  
17 **SAB?**

18 A. Yes. Mr. George correctly testifies that Citizens Energy Group has agreed to  
19 maintain the SAB with all of its original charges set forth in the  
20 Intergovernmental Agreements, including the \$150,000 budget for legal,  
21 engineering and accounting consultants. Citizens Energy Group also agrees to  
22 honor the commitment made in the Intergovernmental Agreement that "[t]hose  
23 Units which are currently subject to the same Water Company retail water rate

1 tariffs as are customers within Indianapolis shall never be charged retail rates by  
2 Waterworks higher than those charged by Waterworks to retail customers within  
3 Indianapolis. Waterworks shall treat all Units with substantial similarity in a  
4 nondiscriminatory fashion, particularly in offering preferential rates. . . .” In  
5 addition, Citizens Energy Group does not intend to subsidize wastewater rates  
6 with water revenues.

7 **Q. WHY DOES CITIZENS ENERGY GROUP OBJECT TO THE CREATION**  
8 **OF A NEW CAPITAL PLANNING BOARD?**

9 A. First, Citizens Energy Group intends to accept the Intergovernmental Agreements,  
10 as they exist, and gain experience operating under that structure. Second, it is  
11 unclear from the SAB’s proposal what role the SAB believes such a board should  
12 have in capital planning decisions. Citizens Energy Group believes capital  
13 planning decisions should be made by experts – particularly given the extensive  
14 capital needs of the water system. Third, Mr. Goings indicates that the capital  
15 planning board should be composed of an SAB appointee, a City appointee and a  
16 Citizens Energy Group appointee. The transaction does not contemplate that the  
17 City will have an ongoing role in capital projects. To the contrary, one of the  
18 purposes and the reasons behind the acquisition of the water and wastewater  
19 systems is to prevent partisan political interference in the governance of the  
20 utilities. Having a City appointee involved in capital decisions would undermine  
21 that purpose.

22 **Q. IS CITIZENS ENERGY GROUP OPPOSED TO THE SAB HAVING ANY**



1           **ROLE IN CAPITAL PLANNING?**

2    A.    No. Citizens Energy Group is not opposed to the continuation of the SAB's  
3           advisory role with respect to capital projects. Citizens Energy Group further  
4           understands the SAB's particular desire to have an ongoing dialogue relating to  
5           capital expenditures. Accordingly, Citizens Energy Group suggests that the SAB  
6           create its own capital planning committee composed of members of the SAB.  
7           Citizens Energy Group then would commit a member of its management team  
8           with specific expertise in capital planning to attend meetings of the SAB's capital  
9           planning committee as frequently as the SAB desired.

10   **Q.    MR. GEORGE RECOMMENDS THAT "IF CITIZENS ENERGY**  
11           **GROUP'S CHARTER SHOULD EVER CHANGE, THEN THE BOARD**  
12           **MEMBERSHIP CRITERIA SHOULD BE DRAFTED TO REFLECT THE**  
13           **ENLARGED SERVICE AREA." HOW DO YOU RESPOND?**

14    A.    The governance structure of Citizens Energy Group is set forth in Ind. Code § 8-  
15           1-11.1 et seq. Under Indiana Code § 8-1-11.1-1(l) "no person shall be appointed  
16           a member of [the] board of directors for utilities *unless he is a bona fide resident*  
17           *of said city and has been such for five (5) years immediately preceding such*  
18           *appointment, and is at least thirty-five (35) years of age.*" (emphasis added)  
19           Citizens Energy Group would not support an amendment to the foregoing statute  
20           to change the governance structure set forth therein. This governance structure has  
21           been in place and been extremely effective for nearly 80 years. In my opinion,  
22           the success that Citizens Energy Group has enjoyed over that period is due in no

1 small part to the governance structure.

2 **Q. SHOULD THE GOVERNANCE STRUCTURE BE CHANGED NOW DUE**  
3 **TO THE FACT THAT THE WATER UTILITY WILL SERVE**  
4 **RATEPAYERS OUTSIDE OF MARION COUNTY?**

5 A. No. Citizens Energy Group currently has customers outside of Marion County  
6 and those customers are treated the same as customers residing within the City of  
7 Indianapolis. Moreover, the governance structure of Citizens Energy Group was  
8 established to protect the interests of the beneficiaries of the public charitable trust  
9 – which are the inhabitants of Marion County. Even after this transaction, with  
10 the new trusts created for the water and wastewater systems, the beneficiaries of  
11 the new trusts will be the inhabitants of Marion County. Accordingly, the focus of  
12 the governance structure is to make sure that the beneficiaries are represented on  
13 the Board. That being said, Citizens Energy Group has agreed to the language  
14 currently set forth in the Intergovernmental Agreements, which prevents the  
15 imposition of discriminatory rates. In my view, this agreement (along with  
16 Commission oversight of Citizens Energy Group's rates for water service) should  
17 alleviate any concern that the Board will attempt to benefit Marion County  
18 customers at the expense of ratepayers in other communities.

19 **RESPONSE TO TESTIMONY OF CONSUMER RATEPAYERS**

20 **Q. HAVE YOU REVIEWED THE TESTIMONY OF TOM PLUMMER?**

21 A. Yes.

22 **Q. MR. PLUMMER STATES THAT "THE PUBLIC GOOD WOULD BE**

1       **BEST SERVED BY EITHER PAYING NO TERMINATION FEE, OR A**  
2       **REDUCED FEE FROM THE \$29 MILLION THAT WAS NEGOTIATED**  
3       **BY THE CITY WITH VEOLIA.” DO YOU AGREE WITH THAT**  
4       **CONTENTION?**

5     A.   No. First, Mr. Plummer presumes that his assertions alone are sufficient to  
6       support a breach of contract claim against Veolia. I disagree with this  
7       presumption. Indeed, in the absence of this settlement it is likely there would be  
8       protracted litigation between Citizens Energy Group or the City and Veolia. Such  
9       litigation would be costly and significantly delay the closing date of the  
10      acquisition of the Utility by Citizens Energy Group – or worse yet, jeopardize  
11      closing, without any certainty as to the outcome of the litigation.

12           Even if one were to presume Citizens Energy Group or the City would  
13      ultimately prevail in such litigation, the “public good” is still served through this  
14      settlement. Mr. Flaherty estimates the synergies resulting from closing the  
15      transaction will save ratepayers approximately \$60 million a year once we hit in a  
16      steady state. Assuming that \$60 million is saved for ratepayers in perpetuity, that  
17      amount (assuming a 3% inflation rate and cost of capital of 5%) would yield a net  
18      present value of approximately \$3 Billion. In this instance the present value is  
19      calculated using the growing perpetuity formula of  $PV = D_1/(r-g)$  where  $D_1$  equals  
20      \$60 million,  $r$  equals 5% and  $g$  equals 3%. The cost of delaying the \$3 Billion for  
21      just one year at that same 5% cost of capital is \$143 million. In this instance the  
22      present value is \$2.857 Billion and calculated wherein  $PV = FV/(1+r)^t$  where  $FV$

1 equals \$3 Billion, r equals 5% and t equals 1. In other words, delaying closing to  
2 litigate whether Veolia is entitled to \$29 million or some lower (or higher  
3 amount) would cost the ratepayers \$143 million assuming the unlikely scenario  
4 that a judgment could be obtained in our favor and the transaction closed with just  
5 one year delay. As most litigators could attest, obtaining a judgment would likely  
6 take much more time, consume many more resources and yield an outcome  
7 neither party anticipated.

8 Citizens Energy Group's other option would have been to take assignment  
9 of the City's agreement with Veolia. This option would have reduced the  
10 synergies from \$60 million to approximately \$40 million. Therefore, this option  
11 would have cost ratepayers approximately \$20 million a year throughout the  
12 remaining term of the agreement. While the net present value calculation is a bit  
13 more complex for determining the cost of this scenario, it ultimately yields a cost  
14 of approximately \$175 million assuming a remaining term of eleven years and a  
15 5% cost of capital.<sup>1</sup> Therefore, in my view, the "public good" is served by the  
16 Commission's approval of the Settlement Agreement.

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS**  
18 **PROCEEDING?**

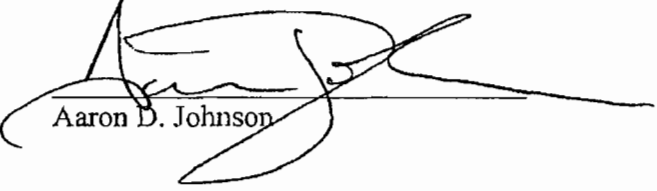
19 **A. Yes.**

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<sup>1</sup> \$175 million is derived using the present value of an annuity due formula, wherein  $PV = PMT[(1 - (1/(1+i)^n))/i](1+i)$ , where  $PMT = \$20$  million,  $i = 5\%$ , and  $n = 11$ .

**VERIFICATION**

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.

  
Aaron D. Johnson



AGREEMENT PERTAINING TO THE  
AGREEMENT FOR THE OPERATION AND MAINTENANCE  
OF THE ADVANCED WASTEWATER TREATMENT FACILITIES AND WASTEWATER  
AND STORMWATER COLLECTION SYSTEM

THIS AGREEMENT PERTAINING TO THE MANAGEMENT AGREEMENT dated January 12, 2011 (this "CWA/United Agreement"), pertains to the Agreement for the Operation and Maintenance of the Advanced Wastewater Treatment Facilities and Wastewater and Stormwater Collection System ("System") executed by the CITY OF INDIANAPOLIS, INDIANA ("City"), acting by and through the DEPARTMENT OF PUBLIC WORKS, and UNITED WATER SERVICES INDIANA LLC ("Company") on October 11, 2007, as amended ("Management Agreement" or "Agreement").

The City is party to the Asset Purchase Agreement by and among the City of Indianapolis and the Sanitary District of the City of Indianapolis, acting by and through the Board of Public Works as Sellers and the Department of Public Utilities For the City of Indianapolis, acting by and through the Board of Directors for Utilities, as Trustee, in furtherance of the Public Charitable Trust for the Wastewater System ("Citizens Energy Group") and CWA Authority, Inc. ("CWA") as Purchaser ("APA") wherein the City has agreed to sell the City's wastewater assets to CWA subject to the specific terms of the APA and approval of the transaction in Cause No. 43936 by the Indiana Utility Regulatory Commission ("DPW-CEG Transaction").

This CWA/United Agreement is among the Company, Citizens Energy Group and CWA (collectively the "Parties") and provides that upon closing of the DPW CEG Transaction and the assignment by the City to CWA of the Management Agreement, the Management Agreement shall be, without further act or deed, deemed amended as set forth in this CWA/United Agreement.

The City is not a party to this CWA/United Agreement, and this CWA/United Agreement will not be effective with respect to amendments to the Management Agreement set forth herein until closing of the DPW-CEG Transaction when the Management Agreement is assigned to CWA as contemplated by the DPW-CEG Transaction. The remainder of this CWA/United Agreement shall be effective upon execution of this CWA/United Agreement.

**BACKGROUND**

A. The Parties recognize the importance of the sale of the water and wastewater utilities to Citizens Energy Group and CWA, respectively, to sustain the long-term viability of these utilities serving the City's inhabitants, and the Parties seek to maximize the opportunity for Citizens Energy Group and CWA and the City to be successful in this historic effort.

B. It is the mutual desire of the Parties to clarify certain contract provisions in the Management Agreement related to the performance incentives and inventory to help Citizens Energy Group and CWA achieve a successful transition. The Parties further desire to set forth terms and conditions pertaining to and to facilitate the DPW-CEG Transaction.

C. The Parties desire to modify, effective on the closing of the DPW-CEG Transaction, certain transition provisions of the Management Agreement to afford Citizens Energy Group and CWA considerable flexibility to maximize potential synergies among the utilities, thereby supporting the efforts of Citizens Energy Group and CWA to secure efficient and economical operation of the combined utility properties.

NOW THEREFORE, in consideration of the mutual promises and covenants herein contained, and also in consideration of the promises and covenants made by the Company in the Memorandum of Understanding to the Agreement for the Operation and Maintenance of the Advanced Wastewater Treatment Facilities and Wastewater and Stormwater Collection System by and between the Company and the City dated January \_\_, 2011 (the "MOU"), the Parties hereby agree as follows:

A. **MODIFICATIONS AND CLARIFICATIONS TO CERTAIN CONTRACT PROVISIONS**

1. Performance Incentives

Immediately upon the closing of the DPW-CEG Transaction, Exhibit 6, Section 6.3, of the Management Agreement shall be amended without further act or deed, by adding the following text immediately after the first paragraph of that Section:

Exhibit 6.3 Detailed Measures for Performance Incentives.

All performance incentive calculation explanations in the Agreement and Exhibits are subject to the calculation clarification provided herein.

The Parties agree that an all or nothing interpretation of the Agreement that identifies the lowest performance payment percentage earned for any of the Subcomponents of a particular Performance Incentive and then multiplies that percentage by the maximum incentive amount to find the incentive payment due to the Company is inconsistent with the spirit of the Agreement, particularly Section 9.10 and Exhibit 6 of the Agreement.

As further explanation, as provided in Exhibit 6, each Performance Incentive is assigned one to nine numbered Subcomponents, and each Subcomponent is associated with performance measurements and assigned equal weighted percentages. Payment to the Company of all or a portion of a Performance Incentive amount is based upon the total percentage obtained by adding the percentages attributable to each Subcomponent that is partially or fully satisfied by the Company.

2. Inventory, as referenced in 6.12(d) Spare Parts of the Management Agreement.



The Parties hereby acknowledge and agree to the following:

- (a) The Company shall prepare and submit to the City an itemized inventory and valuation of all spare parts in stock that confirms a current value of the usable inventory of spare parts as of December 31, 2010, of Three Million Six Hundred and Seventeen Thousand Eight Hundred and Eighteen Dollars (\$3,617,818).
- (b) In regard to the current value of the usable inventory of spare parts as of December 31, 2010, the Company purchased the amount in excess of Two Million Seven Hundred Twenty Thousand Dollars (\$2,720,000).
- (c) The current value of the usable inventory will be adjusted by changes in inventory throughout the remaining term until the end of the Term or the Termination, and then there will be a true up according to the provisions of Section 6.12(d). (Per Section 6.12(d) Spare Parts of the Management Agreement, the breakdown of \$2,720,000 is \$2,500,000 for the AWT Facilities and \$220,000 for the Collection System, including Eagle Creek Dam.)
- (d) The City is currently the owner of the inventory, and the Company is the manager and custodian of the inventory under the Management Agreement, and upon assignment of the Management Agreement, CWA will become the owner of the inventory.

3. Termination for Convenience.

Immediately upon the closing of the DPW-CEG Transaction as defined in the APA document, Section 16.11 of the Management Agreement shall be deemed amended, without further act or deed, by deletion thereof in its entirety and replacement with the following:

16.11 Termination for Convenience

(a) The Company or CWA may terminate this Agreement for its convenience and without cause at any time upon sixty (60) days prior written notice to the other party. Regardless of whether the Company or CWA terminates this Agreement for its convenience, upon any such termination for convenience, the Company shall not be liable to CWA for costs, termination fees or any other costs or expenses associated with such termination, excluding amounts the Company is otherwise obligated to incur pursuant to the Management Agreement.

(b) If CWA or the Company exercises its right of convenience termination, neither CWA nor Citizens Energy Group shall be liable to the Company for demobilization costs, termination fees or any other costs or expenses associated with such termination, excluding amounts due for services rendered by the Company pursuant to the Management Agreement, except for:

- (i) With respect to any convenience termination exercised by CWA or the Company at any date after the closing of the DPW-CEG Transaction

through and including December 31, 2013, the Company shall be paid Five Million Five Hundred Sixty-Eight Thousand and Ninety-Four Dollars (\$5,568,094);

- (ii) If CWA or the Company exercises its right of convenience termination occurring on any date during the period beginning January 1, 2014 through and including December 31, 2014, the Company shall be paid the amount of Four Million Four Hundred Ninety-Seven Thousand Seven Hundred Thirty-Three Dollars (\$4,497,733);
- (iii) If CWA or the Company exercises its right of convenience termination occurring on any date during the period beginning January 1, 2015 through and including December 31, 2015, the Company shall be paid the amount of Three Million Four Hundred Thousand Two Hundred Eleven Dollars (\$3,400,211); and
- (iv) If CWA or the Company exercises its right of convenience termination occurring on any date during the period beginning January 1, 2016 through and including December 31, 2016, the Company shall be paid amount of Two Million Two Hundred Seventy-Six Thousand Three Hundred Eighty-Six Dollars (\$2,276,386).

4. Operations Cooperation.

Immediately upon the closing of the DPW-CEG Transaction, Section 16.12(b) of the Management Agreement shall be deemed amended, without further act or deed, by deletion thereof in its entirety and replacement with the following:

Section 16.12 (b) Operations Cooperation and Transfer of Personnel.

Notwithstanding the termination of this Agreement, CWA shall compensate the Company for performing the services specified in Section 16.12(a) hereof on a daily basis in an amount equal to the daily pro rata basis of the combination of the Fixed Component and the annual maximum of the Performance Incentive Component of the Service Fee for the last full Billing Month immediately prior to the Termination Date.

The Company shall invoice CWA as calculated pursuant to this Section 16.12(b) within fifteen (15) days after the end of each month after the Termination Date, and CWA shall pay to the Company the amount due and owing pursuant to this Section 16.12(b) within forty-five (45) days thereafter. The Company shall comply with the invoicing and date and information provisions of this Agreement in submitting any such invoice to CWA.

5. Manner of Termination Payment.

Immediately upon the closing of the DPW-CEG Transaction, Section 16.13 of the Management Agreement shall be deemed amended, without further act or deed, by deletion thereof in its entirety and replacement with the following:

Section 16.13. Manner of Termination Payment.

All performance and payment obligations under this Agreement, including payment of the Service Fee that is due and owing (including the Fixed Component and the Performance Incentive Component), shall continue pursuant to the terms of this Agreement until this Agreement terminates and any amount accrued but unpaid prior to termination shall, if due and owing, be payable in accordance with this Section 16.13. If the Agreement terminates prior to the end of the Billing Year, the Company shall be paid, without duplication, on a pro rata basis for the Performance Incentives earned to date.

Except as otherwise specifically provided in this Agreement with respect to the time of payment following termination, within ninety (90) days following termination of this Agreement, CWA and the Company shall reconcile all amounts then due and payable to each other under the terms of this Agreement. Upon reaching, as a result of such reconciliation, the total amount of the outstanding unpaid balance which CWA and the Company owe the other, CWA and the Company shall, within thirty (30) days thereafter, make the final payments in complete discharge of their obligations under this Agreement, except those obligations which survive the termination or expiration of this Agreement. Payment obligations under this Section 16.13 are subject to Sections 9.11 and 9.12 hereof.

6. Agreements Regarding Transition and Provision of Service With Respect to the DPW-CEG Transaction

To facilitate the DPW-CEG Transaction and the assignment of the Management Agreement to CWA:

- (a) The Company shall comply with the information, documentation delivery, and reporting requirements of the Management Agreement by a date reasonably requested by CWA.
- (b) The Company shall cooperate with the City's and CWA's transaction planning and procedures and shall provide the City and CWA and their representatives with reasonable access to files and records related to the Management Agreement that the Company is presently obligated to make accessible to the City pursuant to the Management Agreement (with the understanding that information concerning employee salary, compensation and benefits levels would in any event be provided, subject to customary confidentiality agreements with respect to such employee data) upon request and during normal business hours.
- (c) The Company shall cooperate with the City, CWA, and Citizens Energy Group through the transition period regarding the provision of insurance required by the Management Agreement as amended, and CWA and Citizens Energy Group may seek to negotiate further amendments to the insurance coverage requirements of the Management Agreement.

- (d) Upon the Closing of the DPW-CEG Transaction, CWA shall remit Two Hundred and Seventy Thousand Dollars (\$270,000) to the Company to compensate the Company for certain agreed inventory adjustments.

**B. MISCELLANEOUS**


7. Permitted Assignee. The Parties hereby acknowledge that with respect to the DPW-CEG Transaction, CWA is a permitted assignee under Section 18.01 of the Management Agreement, and references to the rights and responsibilities of the City in the Management Agreement upon and after the DPW-CEG Transaction shall be references to CWA.
8. Filing of this CWA/United Agreement with the IURC.
- (a) The Parties acknowledge that this CWA/United Agreement shall be filed with the Indiana Utility Regulatory Commission ("Commission") as part of Cause No. 43936, along with jointly submitted supporting evidence, and they shall support this CWA/United Agreement before the Commission, and the Company agrees not to oppose the assignment of the Management Agreement to CWA upon consummation of the DPW-CEG Transaction or the relief sought by the City, CEG or CWA in Cause No. 43936.
  - (b) The jointly supporting evidence shall be admissible into evidence without objection by the Parties, and the Parties hereby waive cross-examination of their witnesses.
9. Public Announcement of this CWA/United Agreement. The Parties shall agree on the form, wording and timing of public/media announcement (if any) of this CWA/United Agreement.
10. Further Assurances. Each Party will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the transactions contemplated by this CWA/United Agreement. The Parties each agree to execute and deliver such other documents, certificates, agreements and other writings and to take such other action as may be necessary or desirable to consummate or implement expeditiously the transactions contemplated by this CWA/United Agreement.
11. References. Unless otherwise stated, references to the "Agreement" or "Management Agreement" means the Agreement for the Operation and Maintenance of the Advanced Wastewater Treatment Facilities and Wastewater and Stormwater Collection System dated October 11, 2007. From and after the date of closing of the DPW-CEG Transaction, all references in the Management Agreement to "This Agreement" or similar phrases shall be deemed to include the Management Agreement as amended by this CWA/United Agreement unless context specifically indicates otherwise
12. Defined Terms. All capitalized terms herein shall have the same meaning as ascribed to them in the Management Agreement.

13. Continued Effect. All provisions of the Management Agreement except those which are explicitly modified by this CWA/United Agreement shall remain in full force and effect in accordance with their terms. The Company also represents, warrants, and reaffirms that the Guarantee remains in full force and effect and is not affected in any way by this CWA/United Agreement.
14. Governing Law. This CWA/United Agreements shall be governed by and construed and enforced in accordance with the laws of the State of Indiana.

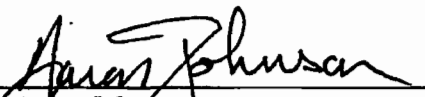
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IN WITNESS WHEREOF, the Parties have signed their names effective the day and year first above written.

"COMPANY"  
UNITED WATER SERVICES INDIANA  
LLC

By:   
Name Thomas P. Brown  
Title President

CWA Authority, Inc. and The Department of  
Public Utilities for the City of Indianapolis,  
acting through the Board of Directors for  
Utilities as trustees and in furtherance of a  
public charitable trust for the wastewater system  
("Citizens Energy Group")

By:   
Name Aaron Johnson

Title Vice President Integration, Citizens  
Energy Group and Vice President, CWA



**BEFORE THE**

**INDIANA UTILITY REGULATORY COMMISSION**

**JOINT PETITION OF THE BOARD OF DIRECTORS FOR )  
UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF )  
THE CITY OF INDIANAPOLIS, D/B/A CITIZENS ENERGY )  
GROUP, CWA AUTHORITY, INC., THE CITY OF )  
INDIANAPOLIS AND ITS DEPARTMENT OF WATERWORKS )  
AND ITS SANITARY DISTRICT FOR APPROVALS IN )  
CONNECTION WITH THE PROPOSED TRANSFER OF )  
CERTAIN WATER UTILITY ASSETS TO THE BOARD AND )  
THE PROPOSED TRANSFER OF CERTAIN WASTEWATER )  
UTILITY ASSETS TO THE AUTHORITY, INCLUDING: (A) )  
APPROVAL OF INITIAL RATES AND RULES FOR WATER )  
AND WASTEWATER SERVICE , AS WELL AS THE TERMS OF )  
CERTAIN AGREEMENTS FOR WASTEWATER TREATMENT )  
AND DISPOSAL SERVICE; (B) APPROVAL OF AN )  
ENVIRONMENTAL COMPLIANCE PLAN UNDER IND. CODE )  
8-1-28 AND AN ADJUSTMENT MECHANISM FOR )  
WASTEWATER RATES TO PROVIDE TIMELY RECOVERY OF )  
COSTS NECESSARY TO COMPLY IN WHOLE OR IN PART )  
WITH THE SAFE DRINKING WATER ACT AND/OR CLEAN )  
WATER ACT; (C) APPROVAL OF PROPOSED ALLOCATIONS )  
OF CORPORATE SUPPORT SERVICES COSTS AMONG )  
AFFECTED UTILITIES; (D) APPROVAL OF AN OPERATING )  
AGREEMENT BETWEEN CITIZENS ENERGY GROUP AND )  
CWA AUTHORITY, INC.; (E) APPROVAL OF DEPRECIATION )  
RATES AND OTHER ACCOUNTING MATTERS RELATED TO )  
THE WATER AND WASTEWATER ASSETS; AND (F) ANY )  
OTHER APPROVALS NEEDED IN CONNECTION )  
THEREWITH )**

**CAUSE NO. 43936**

**VERIFIED REBUTTAL TESTIMONY  
OF  
JOHN R. BREHM**

**On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.**

**Petitioners' Exhibit JRB-R**



**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is John R. Brehm. My business address is 2020 North Meridian Street, Indianapolis, Indiana.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Board of Directors for Utilities (the "Board") of the Department of Public Utilities of the City of Indianapolis, d/b/a Citizens Energy Group. I am Senior Vice President and Chief Financial Officer for Citizens Energy Group. I also serve as Vice President for CWA Authority, Inc. (the "Authority"), which was formed for the purpose of acquiring and owning, subject to the approval of the Commission, the wastewater utility (the "Wastewater System") currently owned and operated by the City and its Sanitary District.

**Q. ARE YOU THE SAME JOHN R. BREHM THAT PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes, I am.

**Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

A. The purpose of this rebuttal testimony is to respond to certain positions taken by the Indiana Office of Utility Consumer Counselor ("OUCC") and the Citizens Industrial Group ("CIG"). Failure to address other aspects of these witnesses' testimony, however, should not be interpreted as my agreement with their testimony.

**Q. PLEASE SUMMARIZE THE FINANCIAL PLAN FOR THE WASTEWATER SYSTEM.**

A. The Wastewater System faces an astonishing financial challenge. Due to the requirements of the Consent Decree and other system requirements, the Wastewater

1 System must implement a \$3 billion projected capital spending program over the next 15  
2 years, an amount that is over four times more than the current original cost less  
3 depreciation of its plant. Given the velocity and magnitude of the debt service cost  
4 increases that will result from executing the required capital spending program, sizeable  
5 annual increases in rates for Wastewater service will be required. Moreover, in light of  
6 the amount of debt to be issued, it is imperative the Wastewater System maintains  
7 sufficient financial flexibility to be able to raise the necessary debt capital across the  
8 variety of credit market conditions it will inevitably face over the next decade-and-a-half.  
9 Consequently, the Wastewater System's financial integrity and credit rating must be  
10 protected through annual rate increases and maintaining sufficient cash working capital to  
11 enable it to withstand the numerous risks it faces with respect to its cash flow and access  
12 to credit and minimize the cost of credit.

13 **OUCC TESTIMONY**

14 **Q. PLEASE STATE YOUR UNDERSTANDING OF THE OUCC'S POSITION**  
15 **REGARDING THE RELIEF REQUESTED IN THIS PROCEEDING.**

16 A. OUCC witness Scott A. Bell provides the OUCC's overall position in regard to the  
17 proposed acquisition of the City's water and wastewater assets. Mr. Bell states "CEG and  
18 the Authority will be well equipped to manage the two utilities." He further states the  
19 "OUCC does not oppose the acquisition of the City's water and wastewater assets" by the  
20 Board and the Authority, subject to satisfaction of certain conditions and limitations,  
21 which are set forth in his testimony and in the testimony of the OUCC's other witnesses.  
22 The specific recommendations Mr. Bell is sponsoring are set forth in bullet point form on  
23 pages 39 and 40 of his testimony. Other witnesses filing rebuttal testimony on behalf of

1 the Board and the Authority will be addressing those recommendations and conditions.  
2 OUCC witnesses Charles E. Patrick, Edward R. Kaufman and Margaret A. Stull cover a  
3 variety of topics including debt service, working capital, proposed order language,  
4 wastewater connection fees and acquisition accounting matters, among others, in their  
5 testimony. My rebuttal testimony responds to the foregoing subjects in Mr. Patrick's, Mr.  
6 Kaufman's and Ms. Stull's testimony.

7 **DEBT SERVICE**

8 **Q. ARE PETITIONERS REQUESTING PRE-APPROVAL IN THIS PROCEEDING**  
9 **FOR RECOVERY OF DEBT SERVICE PAYMENTS ON DEBT ISSUANCES**  
10 **FOR CAPITAL EXPENDITURES AND FOR WORKING CAPITAL OTHER**  
11 **THAN TO ASSUME OR REPLACE SUCH DEBT OUTSTANDING WHEN THE**  
12 **ACQUISITION TRANSACTIONS CLOSE?**

13 **A.** No. The relief the Board and the Authority are seeking with respect to the approval of  
14 debt recovery is set forth in paragraphs (n) and (o) of the Joint Petition filed August 11,  
15 2010. We are not seeking in this proceeding pre-approval for the recovery of debt service  
16 on debt that will have to be issued several years into the future for capital expenditures.  
17 Consequently, there is no reason for the Commission to deny approval of relief we are  
18 not seeking. Moreover, any language in the final order in this proceeding that is  
19 perceived by rating agencies as a pre-judgment by the Commission calling into question  
20 Petitioners' ability to recover costs for debt that will be issued in the future, could  
21 jeopardize the utilities' credit rating or possibly even jeopardize Petitioners' ability to  
22 finance the acquisitions.

1 **Q. HOW DO YOU RESPOND TO MR. PATRICK'S RECOMMENDATIONS THAT**  
2 **THE COMMISSION DENY PETITIONERS THE ABILITY TO ISSUE DEBT**  
3 **AND RECOVER IN RATES THE DEBT SERVICE COSTS FOR FUTURE**  
4 **ISSUANCES TO FINANCE CAPITAL EXPENDITURES?**

5 A. If I understand his testimony correctly, OUCC witness Patrick proposes the Commission  
6 deny the Authority the ability to issue debt and include in its rates all debt service costs  
7 for the life of the projected \$439,895,000 debt that will need to be issued in the future as  
8 part of the required financing of capital spending requirements of the Wastewater System  
9 for the years 2010 through 2013 (Patrick testimony page 25, lines 11 -19). Mr. Patrick  
10 makes this proposal while testifying that the series of 10.75% rate increases the City-  
11 County Council approved were based on projected new borrowings to fund capital  
12 spending during that time frame of \$479,000,000 (Patrick testimony page 25, lines 3-10).  
13 During 2009, the City issued only \$32,050,000 of the "projected new borrowings"  
14 contemplated in its request that resulted in the series of 10.75% rate increases. It will be  
15 up to the Authority to issue the remainder of the projected new borrowings, and that is  
16 projected to be in the amount of \$439,895,000.<sup>1</sup> I do not understand why the Authority's  
17 projection to borrow less money to fund capital spending than what DPW projected at the  
18 time the series of rate increases were approved results in Mr. Patrick's proposal to deny  
19 recovery of debt service on all such future borrowing. Commission acceptance of this  
20 proposal alone would make it impossible for the Authority to have the financial ability to  
21 own and operate the Wastewater System, as it would force the Wastewater System to  
22 cease nearly all capital spending, something it cannot do given the requirement to comply

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<sup>1</sup> \$85 million of which will be in satisfaction of Section 2.04(a)(iii) of the Wastewater Asset Purchase Agreement.

1 with the terms of the Consent Decree, the Asset Purchase Agreements, and other  
2 requirements to maintain the system.<sup>2</sup>

3 Mr. Patrick makes a similar proposal with respect to the Water System. He  
4 proposes the Board be denied the ability to issue debt and include in rates all debt service  
5 costs for the life of the projected \$68,970,000 debt issued attendant to the required  
6 financing of the capital spending requirements of the Water System for the years 2011  
7 and 2012 (Patrick testimony page 19, line 3 through page 20, line 4). Mr. Patrick makes  
8 this proposal while acknowledging the OUCC's position in the pending rate case in  
9 Cause No. 43645 is that the Water System should issue \$66,600,000 of new long-term  
10 debt to finance 60% of the Water System's total \$111 million of capital spending  
11 requirements in 2011 and 2012 with the balance of funding coming from rates (Patrick  
12 testimony, page 19, footnote 6). The City has not issued the \$66,600,000 of long-term  
13 debt contemplated in the pending rate case in Cause No. 43645. It will be up to the  
14 Board to issue that debt. A review of Petitioners' Exhibit JRB-5, lines 12-14 for the  
15 years 2011 and 2012 shows the Board's projection for the total amount of capital  
16 spending for the Water System, as well as the amount to be funded directly through rates  
17 and the amount to be funded through the issuance of new long-term debt is virtually  
18 identical to the OUCC recommendation in Cause No. 43645 explained by Mr. Patrick in  
19 footnote 6 of his testimony in this Cause. Given these facts, I do not understand why the  
20 Board's projection to do essentially the same thing as what the OUCC recommended in

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<sup>2</sup> It appears Mr. Patrick attempted to correct his testimony regarding denying the Authority the ability to issue debt to finance Wastewater System capital spending shortly before this rebuttal testimony was filed. However, it does not appear Mr. Patrick made the same correction regarding his request to deny the Board the authority to finance Water System capital spending.

1 Cause No. 43645 for the Water System in 2011 and 2012 with respect to both the amount  
2 of capital spending and how it is to be funded ultimately would result in Mr. Patrick's  
3 proposal to deny the same debt the OUCC supports in Cause No. 43645. Commission  
4 acceptance of this proposal alone would make it impossible for the Board to have the  
5 financial ability to own and operate the Water System, as it would force the Water  
6 System to eliminate 60% of necessary capital spending in 2011 and 2012, something that  
7 cannot be done given the capital requirements of the system.

8 **WORKING CAPITAL**

9 **Q. MR. PATRICK ADDRESSES THE SUBJECT OF WORKING CAPITAL IN HIS**  
10 **TESTIMONY. TO YOUR KNOWLEDGE, HAS ANY CREDIT RATING**  
11 **AGENCY PROVIDED BENCHMARK DATA REGARDING THE AMOUNT OF**  
12 **CASH WORKING CAPITAL THAT IS ACTUALLY MAINTAINED BY**  
13 **MUNICIPAL WATER AND WASTEWATER UTILITIES ACROSS THE**  
14 **UNITED STATES?**

15 A. Yes. On April 6, 2010 the Public Finance group of Fitch Ratings ("Fitch") published a  
16 report entitled *2010 Water and Sewer Medians* that included data on maintenance of  
17 working capital. The Fitch Public Finance group provides credit ratings on municipal  
18 water and sewer utilities. Fitch explains the purpose of its report in the opening sentence,  
19 "The 2010 medians continue Fitch Ratings' efforts to provide transparency to market  
20 participants by giving clear understanding of certain statistical ratios used in its review of  
21 water and sewer revenue bond credits as they pertain to retail systems." A copy of the  
22 Fitch report is attached as Petitioner's Exhibit JRB-R1.

1 **Q. WHAT DOES THE FITCH REPORT REVEAL WITH RESPECT TO THE**  
2 **AMOUNT OF CASH WORKING CAPITAL THAT IS MAINTAINED BY**  
3 **MUNICIPAL WATER AND WASTEWATER UTILITIES ACROSS THE**  
4 **UNITED STATES?**

5 A. The Fitch report states that the median number of days of cash on hand for municipal  
6 water and wastewater utilities rated in the AA rating category in the United States  
7 amounted to 344 days of operating expenditures. This appears in Appendix F of  
8 Petitioner's Exhibit JRB-R1 on page 21. The report also states the median number of  
9 days of cash on hand for a large system (such as Indianapolis) is 301 days of operating  
10 expenditures (Appendix D on page 19 of the report). The Fitch report states that the  
11 number of days of cash on hand is a "key ratio" used by the rating agency in assessing  
12 credit quality (see footnote "a" on page 21 and the table on page 11) meaning that it is a  
13 particularly relevant criteria in determining a credit rating. "Days of cash on hand" is  
14 defined on page 13 of the report and is consistent with the term "cash working capital"  
15 and with my use of the term "working capital" in my direct testimony.<sup>3</sup> Days of cash on  
16 hand is also consistent with references to terms such as "cash reserves" and "liquidity"  
17 that commonly appear in the Rating Agencies' ratings reports on individual municipal  
18 utilities.

19 It is appropriate to use the AA rating criteria as the benchmark for the Water and  
20 Wastewater Systems because the highest credit rating assigned to each system among the

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<sup>3</sup> I made certain the intervening parties understood how I was using the term "working capital" in my response to OUCC Data Request No. 16-1, subpart (d), dated November 1, 2010, where I stated, "The term 'working capital' as used by Mr. Brehm in his direct testimony refers to cash and cash equivalents such as highly liquid short-term investments."

1 three credit rating agencies (Standard & Poor's, Moody's and Fitch) is in the AA  
2 category, and it is crucial for us to try to maintain that credit rating.

3 **Q. WHY IS IT CRUCIAL IN YOUR OPINION TO TRY TO MAINTAIN A CREDIT**  
4 **RATING FOR THE WATER AND WASTEWATER SYSTEMS IN THE AA**  
5 **(DOUBLE A) RATINGS CATEGORY?**

6 A. There are several reasons. Currently, approximately 83 percent of the outstanding debt of  
7 the Wastewater System has been issued through the State Revolving Fund ("SRF")  
8 program of the Indiana Finance Authority ("IFA"). The IFA looks to Standard & Poor's  
9 in order to assess credit rating compliance with its investment criteria. Standard & Poor's  
10 currently rates the wastewater system as AA+. The Authority has entered into a  
11 Memorandum of Understanding ("MOU") with the IFA that potentially provides the  
12 least-cost means of satisfying the outstanding SRF debt. This is accomplished by  
13 enabling approximately \$171 million of the total \$434 million of loans outstanding with  
14 the SRF at the time of executing the MOU to be assumed by the Authority under its  
15 current terms and conditions thereby avoiding a full defeasance of all outstanding SRF  
16 debt with the IFA (a full defeasance of SRF debt was assumed in the Wastewater System  
17 financial projections in Petitioner's Exhibit JRB-1). In addition, the MOU provides that  
18 for the remaining \$263 million of currently outstanding SRF debt, the IFA will purchase  
19 the first 25 years of the contemplated total 30-year amortization of the debt issued to  
20 defease these loans, a structure the Authority believes is the most effective and efficient  
21 means of replacing such debt. Further, since the IFA has been the Wastewater System's  
22 primary lender, continuing in the SRF program is an important consideration for future  
23 debt. However, the willingness of the IFA to participate in the afore-described



1 satisfaction of its currently outstanding SRF loans to the Wastewater System is  
2 conditioned upon receipt of an S&P credit rating for the SRF debt of the Authority in the  
3 AA rating category.

4 With respect to the currently outstanding debt of the Water System, it is  
5 contemplated that the Board will be able to assume such debt under its current terms and  
6 conditions. Currently, S&P has assigned a (AA-) credit rating to the Water System debt.  
7 It is important to maintain all current credit ratings to avoid bondholder complications in  
8 executing the Board's assumption of the outstanding Water System debt.

9 More generally, for both the Wastewater and Water Systems, new issuances of  
10 municipal water and wastewater debt rated in the AA category currently experience  
11 interest rates approximately 50 basis points below new issuances of municipal water and  
12 wastewater debt rated in the A category. Additionally, AA ratings would provide access  
13 to additional bond products and investor classes that do not require support of a bank  
14 facility, thereby lowering the cost of capital. For example, short-term investors are  
15 largely comprised of Money Market Funds, which generally require at least two AA  
16 ratings as minimum rating criteria for investments. Without two AA ratings, we will lose  
17 access to these investors for unenhanced short-term paper and will have a more limited  
18 pool of banks to choose from in the issuance of enhanced short-term paper. Given the  
19 enormity of the amount of debt the Wastewater System must issue over the next 15 years,  
20 a 50 basis point differential is very material. If its interest rates increased by 50 basis  
21 points, the debt service the Wastewater System would pay would increase \$134.4 million  
22 over the 2011-2025 period, resulting in a sustained increase to the Wastewater System's  
23 revenue requirements of \$13.5 million annually in 2025 and beyond. A 50 basis point

1 differential is also material given the projected amount of debt the Water System needs to  
2 issue in 2011-2014. In addition, the terms and conditions associated with securing  
3 necessary sources of short-term credit, such as bank lines and commercial paper become  
4 more costly and restrictive as the credit rating falls below the AA category. In fact, short-  
5 term credit was not available for certain investment-grade credit categories in 2008. This  
6 dislocation in short-term credit markets was the triggering event for the United States'  
7 current economic malady.

8 **Q. DO YOU HAVE ADDITIONAL EVIDENCE THAT THE RATING AGENCIES**  
9 **FOCUS PARTICULAR ATTENTION ON THE AMOUNT OF CASH RESERVES**  
10 **MAINTAINED BY A MUNICIPAL UTILITY WHEN ASSIGNING A CREDIT**  
11 **RATING?**

12 **Q.** Yes. In Moody's credit report explaining its recent downgrade of the credit rating of the  
13 debt of the Water System it included "a significantly deteriorated unrestricted cash  
14 position" as one of three principal reasons it highlighted for the downgrade action. In  
15 addition, in the credit report under the category "What Could Move the Rating Up (Or  
16 Removal of Negative Outlook)" the "restoration of unrestricted [cash] reserves to  
17 adequate levels" was one of only two elements listed. Moreover, in the credit report  
18 under the category "What Could Move the Rating Down" the "continued weakening of  
19 the system's unrestricted [cash] reserves position" was one of only two elements listed.

20 **Q. WHY DO THE RATING AGENCIES CONSIDER THE NUMBER OF DAYS OF**  
21 **CASH ON HAND TO BE SUCH A CRITICAL RATIO IN ASSESSING THE**  
22 **CREDIT QUALITY OF A MUNICIPAL UTILITY?**

1 A. There are several reasons, all of which are fundamental for prudent business purposes  
2 rather than merely for credit rating purposes. First, a municipal utility, like any business,  
3 needs a reserve of cash on hand in order to pay current obligations as they come due.  
4 Municipal water and wastewater utilities incur costs to provide the utility service (labor,  
5 materials, supplies, services, etc.) in advance of bills being rendered and revenue  
6 collected for providing the service. The timing of the costs necessary to run the business  
7 will never match the timing of the receipt of revenues to cover those costs, which means  
8 a reserve of cash always must be available to handle basic day-to-day utility operations,  
9 even if the future could be perfectly predicted. Second, the future cannot be perfectly  
10 predicted as revenue shortfalls can occur due to customer conservation, weather-related  
11 variability, load loss or expense overages can occur due to unplanned or unexpected  
12 necessary expenses, causing cash flow to fall short of expectations. Also, utility revenue  
13 can fall short of expenditures causing negative cash flow due to the inherent lag in the  
14 regulatory process of adjusting rates to match costs that have been impacted by inflation  
15 over time. Use of short-term credit alone is not a prudent practice to provide for periodic  
16 cash shortfalls for at least two reasons. One reason is that a short-term credit facility,  
17 such as a bank line of credit must be completely paid off in less than one year of drawing  
18 down the credit. If the reason for the cash shortfall persists, then paying off the short-  
19 term credit obligation when due becomes problematic. Indeed, the utility ratemaking  
20 process does not typically provide a revenue allowance to make up for past operating  
21 deficits. Sometimes, a short-term credit facility can be rolled over when it is due and  
22 there is not an adequate amount of cash available to pay it off, but that is not always the  
23 case. For example, in the fall of 2008 a widespread disruption occurred in the short-term

1 credit markets in the United States and worldwide. This disruption not only affected  
2 municipal utilities, many of the nation's largest firms, including numerous firms with  
3 investment grade credit ratings, were unable to roll over their short-term credit facilities.  
4 The disruption was so large that some of the world's largest firms domiciled in the  
5 United States, including major banks and automobile manufacturers, required support  
6 from the federal government to avoid bankruptcy. Many of the economic conditions that  
7 led to this disruption (large government fiscal deficits, home mortgages in excess of  
8 underlying home values, overleveraged consumers, etc.) continue to exist so the  
9 probability of another credit market disruption remains relatively high. This risk is  
10 exacerbated for a municipal utility that faces a capital-spending program that cannot be  
11 deferred or postponed due to system requirements, including environmental mandates.  
12 Consequently, maintaining a reserve of cash is a critical and prudent business practice. In  
13 addition, a municipal utility is different than an investor-owned utility because it cannot  
14 sell common stock to raise equity capital. Selling common stock to raise capital can be  
15 considered the "insurance policy" investor-owned utilities have available to raise capital  
16 when credit is not available. However, municipal utilities do not have that "insurance  
17 policy," so it is imperative that a reserve of cash is maintained.

18 **Q. DOES THIS LIST OF BUSINESS REASONS EXPLAIN WHY THE MEDIAN**  
19 **LEVEL OF CASH WORKING CAPITAL THAT IS MAINTAINED BY AA**  
20 **(DOUBLE A) RATED MUNICIPAL WATER AND WASTEWATER UTILITIES**  
21 **ACROSS THE UNITED STATES AMOUNTS TO 344 DAYS OF OPERATING**  
22 **EXPENSES?**

23 **A. Yes.**

1 **Q. DOES IT MATTER WITH RESPECT TO THIS BENCHMARK THAT MOST OF**  
2 **THE MUNICIPAL WATER AND WASTEWATER UTILITIES INCLUDED IN**  
3 **THE FITCH REPORT ARE NOT REGULATED BY STATE UTILITY**  
4 **COMMISSIONS?**

5 A. No. The business reasons for needing cash working capital are the same for municipal  
6 water and wastewater utilities irrespective of whether they are regulated by a state utility  
7 commission or a municipal legislative body. Rating agencies have proffered that the  
8 regulatory risk of achieving timely rate increases is greater for a municipal water or  
9 wastewater utility regulated by a state commission than by a municipal legislative body.  
10 If true, that would increase the cash working capital need of commission-regulated  
11 utilities compared to utilities regulated solely by a municipal legislative body.

12 **Q. DOES THE OUCC RECOGNIZE THESE BUSINESS ISSUES IN ITS**  
13 **RECOMMENDATION IN THIS PROCEEDING WITH RESPECT TO THE**  
14 **APPROPRIATE LEVEL OF CASH WORKING CAPITAL FOR THE WATER**  
15 **AND WASTEWATER SYSTEMS?**

16 A. OUCC witness Patrick gives some degree of recognition to the fact that the operating  
17 cycle of the Water and Wastewater Systems is such that costs are incurred to produce  
18 water and wastewater service in advance of bills being rendered and collected for  
19 providing the service. However, he does not address the other business issues I listed  
20 above for maintaining cash working capital. The practical effect of Mr. Patrick's  
21 recommendation is that the amount of cash reserves of the Water and Wastewater  
22 Systems would be depleted and sustained at zero or less within the first two months of the  
23 acquisition.

1   **Q.   PLEASE EXPLAIN.**

2   A.   Mr. Patrick recognizes that the Board and the Authority will not purchase the accounts  
3       receivable of the Water and Wastewater Systems. This is customary practice in an asset  
4       purchase since acquiring the accounts receivable would require paying a higher price  
5       since more assets would be acquired. This is the same reason it is customary practice in  
6       an asset purchase that the cash of the selling party is not acquired. Mr. Patrick  
7       appropriately recognizes the practical reality that there will be a period of time following  
8       the closing of the transaction when the Water and Wastewater Systems will be incurring  
9       out-of-pocket costs, but virtually all collections of customer payments will be remitted to  
10      the City because they are for service rendered prior to the close of the transaction. He  
11      concludes that it would be appropriate for each system to be capitalized with debt to  
12      allow cash amounting to 30 days of operating expenses to be available on day one  
13      following the closing of the acquisition. But the limited initial amount of cash Mr.  
14      Patrick recommends would be exhausted within the first two months of operations as the  
15      respective utilities incur costs, but collect only a limited amount of revenues (the bulk of  
16      revenue collections during the first two months of operations will be remitted to the City,  
17      as such collections will be for service rendered prior to the close of the transaction).  
18      From that point forward, even if the collection of revenues for service rendered match  
19      out-of-pocket costs, there will be no catch-up for operating at a cash deficit during the  
20      initial two months of operation.<sup>4</sup> Consequently, under Mr. Patrick's recommendation, the  
21      Water and Wastewater Systems would be left with no cash working capital to provide for

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<sup>4</sup> This provides a vivid illustration of the fact that the operating cycle of utilities is that costs are incurred to produce utility service in advance of bills being rendered and collected for providing the service.

1 any of the business issues I described above within a short time after closing the  
2 transaction. This is imprudent.

3 **Q. WHAT AMOUNT OF DEBT DO YOU BELIEVE WOULD BE APPROPRIATE**  
4 **FOR CAPITALIZING THE WATER AND WASTEWATER SYSTEMS TO**  
5 **PROVIDE FOR CASH WORKING CAPITAL?**

6 A. I believe it would be prudent to capitalize the Water and Wastewater Systems,  
7 respectively, with debt resulting in a net amount of cash after funding any required debt  
8 service reserve requirement and costs of issuance associated with such debt amounting to  
9 six months and seven months of projected operating expenses, respectively. This would  
10 amount to debt financing for the Water System of approximately \$42 million (\$40  
11 million amounting to approximately six months of projected operating expenses, plus  
12 estimated debt service reserve funding and issuance costs). The Water System would  
13 have approximately 135 days of cash on hand after the first two months of operation (180  
14 days less 45 days consumed in providing for the operating cycle during the first two  
15 months of operation). Although 135 days of cash on hand is obviously less than the 344-  
16 day benchmark for AA rated utilities, I am hopeful this amount of cash supplemented by  
17 access to bank lines of credit will be adequate to persuade the rating agencies that each  
18 system will be able to reasonably provide for the business issues for having cash  
19 enumerated above.

20 The amount of projected debt financing for the Wastewater System would be  
21 approximately \$45 million (\$42.7 million amounting to approximately seven months of  
22 operating expenses, plus estimated debt service reserve funding and issuance costs). This  
23 would result in the Wastewater System having approximately 165 days of cash on hand

1 after the first two months of operation (210 days less 45 days consumed in providing for  
2 the operating cycle during the first two months of operation). Although 165 days of cash  
3 on hand is less than the benchmark for AA rated utilities, I am hopeful this amount of  
4 cash supplemented by access to bank lines of credit will be adequate to persuade the  
5 rating agencies that each system will be able to reasonably provide for the business issues  
6 for having cash enumerated above.

7 **Q. MR. PATRICK ASSERTS YOUR PROPOSAL TO CAPITALIZE THE WATER**  
8 **AND WASTEWATER SYSTEMS WITH AN AMOUNT OF DEBT TO PROVIDE**  
9 **FOR CASH WORKING CAPITAL WOULD AMOUNT TO A "DOUBLE**  
10 **RECOVERY." DO YOU AGREE?**

11 **A.** No. Mr. Patrick states that the OUCC's position in Cause No. 43645 is that the Water  
12 System should be provided with \$2,386,000 of revenue annually to provide for working  
13 capital. Since the Board would be agreeing to operate the Water System within the rates  
14 established by the Commission in Cause No. 43645, all that I have done with respect to  
15 the Water System is borrow against \$3.4 million of such annual revenues to raise over  
16 \$40 million of cash (see Petitioner's Exhibit JRB-5, line 17). In other words, I have  
17 simply redirected to a higher and better use the \$2.4 million of working capital annual  
18 revenue requirement that even the OUCC agrees should be provided in rates, plus an  
19 additional \$1 million that we will carve out through savings or some other portion of the  
20 revenue stream that will be provided when the Order in Cause No. 43645 is approved by  
21 the Commission. This is a much more financially prudent use of an annual stream of  
22 revenue than just letting the \$3.4 million slowly build up to a reasonable cash balance  
23 year-after-year. The reason it is more financially sound is that it immediately provides a



1 prudent amount of days of cash on hand to directly address all of the business purposes  
2 for having such cash and it does so in a way that removes a material rating agency  
3 concern. This is not double recovery; this is putting what the OUCC agrees is a  
4 necessary annual revenue stream to its most prudent financial use. The same principal is  
5 equally true for the Wastewater System. The Board and the Authority are proposing that  
6 within the rate structure that exists today for the Wastewater System, and will exist for  
7 the Water System upon receipt of an Order in Cause No. 43645, we can create two  
8 properly capitalized utilities.

9 **Q. MR. PATRICK ASSERTS THAT YOU "PROPOSED" THE WASTEWATER**  
10 **SYSTEM BORROW OVER \$90 MILLION FOR WORKING CAPITAL IN THE**  
11 **CASE-IN-CHIEF (PAGE 31 OF PATRICK). IS THAT WHAT YOU**  
12 **"PROPOSED?"**

13 **A.** I believe I made clear during my cross-examination that this was not a "proposal." I  
14 indicated that \$90 million was an assumption in the financial model (Petitioner's Exhibit  
15 JRB-1) to be certain that the Authority did not low-ball the debt service requirements in  
16 assessing whether its plan enabled it to have the financial ability to own and operate the  
17 Wastewater System. Indeed, on page 26 of his testimony, Mr. Patrick quotes from my  
18 response to OUCC Data Request No. 12-15. The last sentence in the quote clearly  
19 indicates the \$90 million dollar amount was chosen "for modeling purposes."

20 **Q. MR. PATRICK ASSERTS THE AMOUNT OF CASH WORKING CAPITAL**  
21 **FINANCING YOU ARE TARGETING FOR THE WATER SYSTEM AMOUNTS**  
22 **TO 8 MONTHS OF OPERATING EXPENSES (PATRICK, PAGE 18). IS THAT**  
23 **TRUE?**

1 A. No, it is six months. It is the sum of lines 5-10 on Petitioner's Exhibit JRB-5 under the  
2 2011 column divided by two. Mr Patrick was provided that information in response to  
3 OUCC Data Request 17-21.

4 **Q. MR. PATRICK ASSERTS IT IS NOT APPROPRIATE TO USE CASH**  
5 **WORKING CAPITAL TO PROVIDE FOR CAPITAL SPENDING (PATRICK**  
6 **PAGES 33 AND 34). DO YOU AGREE?**

7 A. No. As Mr. Patrick points out, in the DOW rate case, the OUCC recommended that 40%  
8 of the capital spending requirements of the Water System should be included in annual  
9 revenue requirements of the Water System as extensions and replacements (footnote 6 on  
10 page 19). That amount is clearly intended by the OUCC to be paid out of revenues.  
11 Obviously, to the extent there is a shortfall in operating cash flow due to the numerous  
12 reasons I enumerated above, the shortfall would be made up from working capital, not the  
13 proceeds of construction financing. Indeed, under the municipal ratemaking statute,  
14 extensions and replacements are treated for ratemaking purposes in the same manner as  
15 operating costs. Consequently, it would be reasonable to add 40% of the annual capital  
16 spending needs of the Water System to the operating expenses of the Water System in  
17 order to calculate the number of days of cash on hand. The same would be true for the  
18 extent to which capital spending of the Wastewater System is intended to be paid from  
19 operating revenues.

20 **Q. MR. PATRICK APPEARS TO CONNECT USE OF A LEAD/LAG STUDY OR**  
21 **THE 45-DAY FEDERAL ENERGY REGULATORY COMMISSION FORMULA**  
22 **TO "STATUTORY MANDATES" WITH RESPECT TO CASH WORKING**  
23 **CAPITAL (PATRICK PAGES 32 AND 33). HOW DO YOU RESPOND?**

1 A. The municipal ratemaking statute merely states "adequate money for working capital."  
2 There is no statutory mandate for use of the 45-day method or a lead-lag study. In fact,  
3 the purpose of a lead/lag study is to measure how much a utility has actually invested in  
4 working capital in the accounting sense.<sup>5</sup> A lead/lag study is typically performed in an  
5 investor-owned utility rate case, where the investment in working capital is added to the  
6 value of net plant to determine the rate base amount. As footnote 9 of Mr. Patrick's  
7 testimony states, a lead/lag study is very time consuming. For that reason, the 45-day  
8 formula is sometimes used as a substitute for a lead/lag study, but both a lead/lag study  
9 and the 45-day formula are intended to measure the same thing – a utility's historical  
10 actual investment in working capital. Neither a lead/lag study nor the 45-day formula are  
11 designed to reveal what a utility *should have* available in cash working capital. That  
12 determination requires judgment.

13 **ACQUISITION ADJUSTMENT**

14 **Q. OUCC WITNESS KAUFMAN TESTIFIES REGARDING THE POTENTIAL FOR**  
15 **AN ACQUISITION ADJUSTMENT WITH RESPECT TO THE WASTEWATER**  
16 **SYSTEM (KAUFMAN PAGE 26). WHAT IS AN ACQUISITION ADJUSTMENT?**

17 A. An acquisition adjustment is an accounting entry that is required by the NARUC Uniform  
18 System of Accounts when the cost of utility plant that is acquired as an operating unit or  
19 system in a purchase transaction is different than its net book value at the time of the  
20 acquisition. An acquisition adjustment can be positive or negative depending on whether  
21 the purchase price of the system was more or less than its net book value.

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<sup>5</sup> By "accounting sense" I mean current assets less current liabilities. That is contrasted with the way I use the term "working capital" in my testimony that is explained in my footnote 3.

1   **Q.   HAVE YOU PREPARED AN ESTIMATE OF WHETHER THE AUTHORITY**  
2       **WILL BE ACQUIRING THE WASTEWATER SYSTEM ABOVE OR BELOW**  
3       **ITS NET BOOK VALUE?**

4   **A.**   Yes. That estimate is presented in Petitioner's Exhibit JRB-R2. Petitioner's Exhibit  
5       JRB-R2 assumes the acquisition will take place on March 31, 2011. Petitioner's Exhibit  
6       JRB-R2 shows that the Wastewater System is projected to be acquired at a purchase price  
7       that is below its net book value, which would likely result in a negative acquisition  
8       adjustment.

9           The analysis in Petitioner's Exhibit JRB-R2 begins with the estimated original  
10       cost less depreciation of the Wastewater System's plant at July 10, 2009 that R.W. Beck  
11       prepared (see the direct testimony of Michael G. Lane, Appraisal Final Report, Exhibit 3,  
12       page 7). The analysis then estimates net changes to that balance occurring from that date  
13       through March 31, 2011. The balance in unexpended bond construction funds on line 2  
14       represents an asset the Authority will acquire. By March 31, 2011, a portion of that  
15       balance will have been invested in new plant with the remainder continuing in the  
16       unexpended bond construction fund. Consequently, the balance in the fund at June 30,  
17       2010 is appropriate to include in determining the book value of assets acquired at March  
18       31, 2011. Similarly, the proceeds from the Wells Fargo line of credit on line 3 represent  
19       funds that will be borrowed and invested in new plant during 2010 and the first quarter of  
20       2011. Line 4 of the analysis estimates the amount invested in new plant from July 10,  
21       2009 through March 31, 2011 that was funded by Wastewater System revenues. Line 5  
22       of the analysis is the estimated amount of book depreciation on plant assets that will be  
23       recorded from July 10, 2009 through March 31, 2011. Lines 7 through 10 of the analysis

1 present the March 31, 2011 balance of Wastewater System debt that will be assumed or  
2 otherwise satisfied by the Authority as consideration to the City for acquiring the  
3 Wastewater System assets. Lines 11 and 12 of the analysis represent the net cash the  
4 Authority will provide the City as consideration for acquiring the Wastewater System  
5 assets. Line 14 of the analysis shows the amount by which the net book value of the  
6 acquired Wastewater System assets at March 31, 2011 are expected to exceed the  
7 purchase price the Authority will pay for the Wastewater System. Consequently, the  
8 analysis in Petitioner's Exhibit JRB-R2 estimates the Authority will be acquiring the  
9 Wastewater System assets for \$56.8 million below net book value. This implies the  
10 acquisition adjustment accounting entry recorded on the Wastewater System books per  
11 the NARUC Uniform System of Accounts is likely to be negative.

12 **Q. MR. KAUFMAN ASSERTS THAT SINCE THE AUTHORITY WILL BORROW**  
13 **THE AMOUNT NECESSARY TO FUND THE CASH PORTION OF THE**  
14 **CONSIDERATION PROVIDED TO THE CITY, INCLUDING SUCH DEBT**  
15 **SERVICE IN RATES MEANS THE DEBT SERVICE ON SUCH BORROWING**  
16 **IS THE FUNCTIONAL EQUIVALENT OF PAYING A RETURN ON THE**  
17 **POTENTIAL ACQUISITION ADJUSTMENT. DO YOU AGREE?**

18 **A.** No, it is not possible to earn a return on a negative number. Also, in order to make his  
19 assertion, Mr. Kaufman focuses exclusively on debt service and ignores all the cost  
20 savings and other public interest benefits that are brought to the Wastewater System as a  
21 result of it being acquired by the Authority, which is another material flaw in his analysis.  
22 The linkage between the acquisition debt service and the savings and other public interest  
23 benefits of the acquisition cannot be decoupled.

1   **Q.   MR. KAUFMAN (KAUFMAN PAGE 41) AND MR. PATRICK (PATRICK PAGE**  
2       **17 AND PAGE 27) SUGGEST THE AUTHORITY SHOULD INVEST EQUITY IN**  
3       **THE WASTEWATER SYSTEM IN ORDER TO REDUCE DEBT SERVICE AND**  
4       **FUTURE RATES. HOW DO YOU RESPOND?**

5   **A.**   During my cross-examination, I explained there was no financial benefit to the Board or  
6       the Authority from owning or operating municipal utilities since the Board and the  
7       Authority serve as trustees with respect to the ownership of such systems, including the  
8       Water and Wastewater Systems, and thereby operate those systems for the benefit of the  
9       inhabitants of the City and not as for-profit investors in the systems. Consequently, there  
10      is no opportunity for the Board or the Authority to earn a return on an investment of  
11      equity. The Board and the Authority own and operate utilities in furtherance of a trust  
12      purpose, not because there is a financial reward. I went on to state that the best the Board  
13      or the Authority could hope to achieve financially was to have sufficient financial  
14      flexibility to raise on reasonable terms the debt financing required to enable them to  
15      fulfill their utility service obligations.

16           Mr. Kaufman's testimony validates my testimony. It is axiomatic that equity  
17      capital carries a higher cost than debt capital. By stating that an infusion of equity capital  
18      into the Wastewater System would reduce its rates, Mr. Kaufman effectively agrees there  
19      is no financial benefit (*i.e.*, equity return) to the Board, the Authority or the Trust of  
20      owning and operating municipal utility systems. Consequently, Mr. Kaufman's and Mr.  
21      Patrick's suggestion that CEG make an equity infusion into the Wastewater System is  
22      nothing other than a suggestion to seize Trust property without compensation.

23   **ORDER LANGUAGE**

1 **Q. MR. KAUFMAN PROPOSES LANGUAGE FOR THE COMMISSION TO**  
2 **INCLUDE IN ITS ORDER IN THIS CAUSE TO ADDRESS CONCERNS OF THE**  
3 **RATING AGENCIES (KAUFMAN PAGE 42). WILL THIS PROPOSED**  
4 **LANGUAGE ADDRESS THE CONCERNS OF THE RATING AGENCIES?**

5 A. I do not think so given the entire context of the positions the OUCC has taken in this  
6 case. Mr. Kaufman's proposed language will not address the concerns of the rating  
7 agencies unless the Commission rejects numerous OUCC recommendations in this  
8 Cause. The rating agencies understand the Commission speaks through its orders.  
9 Consequently, the rating agencies review Commission orders for substance to form their  
10 assessment of whether the Commission understands the financial requirements of utilities  
11 under its jurisdiction and is prepared to do substantive things to address such financial  
12 requirements.

13 To provide just one specific illustration,<sup>6</sup> if the rating agencies understood from  
14 the Commission Order in this Cause that the Wastewater System would effectively have  
15 no cash working capital within a short time after closing the transaction, which is the  
16 effect of the OUCC's stated position, and then read Mr. Kaufman's proposed language in  
17 the same Order, they would likely dismiss Mr. Kaufman's proposed language as mere lip  
18 service. There must be substance in the Order in this Cause to give Mr. Kaufman's  
19 proposed language any efficacy with the rating agencies. Substance would be the  
20 Commission evidencing understanding in its Order that the Authority will be required to  
21 issue substantial amounts of new debt each year over the next 15 years, coupled with a

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<sup>6</sup> This is not intended to be an exhaustive list; it is an illustration using just one of several OUCC positions that would cause problems with the rating agencies if adopted in the Commission Order in this Cause.

1 tangible means of demonstrating the service on such debt can be covered in rates without  
2 delay.<sup>7</sup> The tangible means of demonstrating in the Order in this Cause that the service  
3 on such debt can be covered in rates without delay includes adoption of the rates already  
4 approved by the City-County Council through 2013, approval of the Authority's  
5 proposed Environmental Compliance Plan Recovery Mechanism and language  
6 expressing the Commission's willingness to consider ways to provide the Authority with  
7 annual rate increases to allow it to cover necessary increasing costs as they occur.

8 The rating agencies will have concerns about the Wastewater System coming  
9 under the jurisdiction of the Commission. As I stated in my direct testimony, "The  
10 perspective of the rating agencies has been shaped in part by the fact that under City-  
11 County Council oversight, the Wastewater System has been able to secure a five-year  
12 multi-step rate increase to enable the Wastewater System to recover necessary increasing  
13 costs as they occur, rather than lag the incurrence of increasing costs, which would result  
14 in the Wastewater System experiencing material cash deficits. Rating agencies will be  
15 highly focused on the regulatory process and the willingness to consider necessary annual  
16 rate increases in a timely fashion" (Brehm direct testimony, pages 22 and 23). The rating  
17 agencies understand the Wastewater System is projecting to spend \$2.3 billion more than  
18 its total revenues over the next 15 years, if the annual rate increases included in the  
19 projections in Petitioner's Exhibit JRB-1 occur on a timely basis as projected. That \$2.3  
20 billion shortfall in revenues must be financed with debt, with the associated debt service  
21 included in rates. They will be looking for tangible evidence in the Commission Order in  
22 this case that they can rely on a projection of timely annual rate increases to support such

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<sup>7</sup> "Can be" is intentionally chosen wording. It is not a guarantee.



1 debt. Otherwise, they will discount the projections to adjust for the regulatory risk of  
2 achieving timely rate increases to cover debt service, which could adversely affect the  
3 credit rating of the Wastewater System in a material way.

4 Unfortunately, the rating agencies already have expressed some skepticism  
5 regarding the ability of Indiana's regulatory framework to provide timely rate increases to  
6 municipal utilities. For example, in its recent downgrade of the debt of the Water  
7 System, Moody's noted "a regulatory environment that cannot assure timely rate  
8 increases" among the three principal reasons it highlighted for the downgrade action.  
9 That is why it is so important to couple tangibility with any statements recognizing the  
10 need to maintain the Wastewater System's financial integrity.

11 **Q. MR. KAUFMAN RECOMMENDS THE COMMISSION NOT INCLUDE IN THE**  
12 **ORDER ANY LANGUAGE EXPRESSING A WILLINGNESS TO CONSIDER**  
13 **USE OF A FUTURE TEST YEAR IN ESTABLISHING RATES FOR THE**  
14 **WASTEWATER SYSTEM. HOW DO YOU RESPOND?**

15 A. It is clearly within the Commission's authority to establish rates based on a future test  
16 year if circumstances merit. It would be very helpful in dealing with the rating agencies  
17 for the Commission to say that in the Order in this Cause. The Commission can make  
18 this statement without making a commitment in advance to actually decide to establish  
19 the Wastewater System's rates using a future test year. Although I could explain to the  
20 rating agencies the language in the Court of Appeals opinion in the L.S. Ayres case in an  
21 attempt to show the ratemaking flexibility available to the Commission with respect to  
22 choice of test year available under Indiana law, it would be much more meaningful to the

1 rating agencies to read the Commission's own words in the Order in this Cause regarding  
2 the flexibility to utilize a future test year when appropriate.

3 The OUCC testimony is contradictory with respect to the question of the potential  
4 for using future test years in the inevitable rate cases facing the Wastewater System. Mr.  
5 Kaufman, in stating his opposition to the Commission merely including language in the  
6 Order in this Cause expressing nothing other than a "willingness to consider" use of  
7 future test years in the Authority's future rate cases, declares, "If the Authority wishes to  
8 propose a future test year in a future rate case, it should do so at the time." Witness Stull,  
9 on the other hand, recommends that in this Cause the Commission order the Wastewater  
10 System to file a general rate case in 2013 using the historical test year ended December  
11 31, 2012. Witness Stull's recommendation contradicts Mr. Kaufman's testimony by  
12 seeking a determination of a test year in a future rate case at the present time. If adopted,  
13 it also would undermine any language, such as that proposed by Mr. Kaufman, included  
14 in the Commission Order in this Cause to address the concerns of the rating agencies.

15 **Q. COULD USE OF FUTURE TEST YEARS RESULT IN THE WASTEWATER**  
16 **SYSTEM GENERATING EXCESS CASH IF ACTUAL REVENUES PROVE TO**  
17 **BE MORE OR ACTUAL COSTS PROVE TO BE LESS THAN PROJECTED IN**  
18 **THE FUTURE TEST YEARS TO ESTABLISH RATES?**

19 **A.** No, not in the case of the Wastewater System. That can be seen by reviewing Petitioner's  
20 Exhibit JRB-1, the Wastewater System financial projection. Line 13 of Petitioner's  
21 Exhibit JRB-1 shows that even with the annual projected rate increases, the Wastewater  
22 System must borrow substantial amounts of new money in each year of the 15-year  
23 projection in order to meet its capital expenditure obligations (a projected \$2.3 billion

1 cumulatively). That means if in any year cash flow was better than projected because  
2 sales volumes were higher than anticipated or costs were lower than anticipated, there  
3 would not be a resulting buildup of cash. The result simply would be a smaller amount of  
4 borrowing on line 13. In fact, it would be incorrect to interpret line 21 of Petitioner's  
5 Exhibit JRB-1 as a plan to build up or draw down cash. Line 21 is merely a financial  
6 modeling technique that enables us to avoid the inherent circularity of continually  
7 tweaking upward or downward the amount of annual new financing on line 13 in order to  
8 make the net cash flow each year on line 21 be zero.

9 Consequently, given the Wastewater System is projecting to spend \$2.3 billion  
10 more than its total revenues over the next 15 years, there is no practical risk that use of  
11 future test years could result in customers paying too much for Wastewater service.

12 **Q. IS THE AUTHORITY REQUESTING THAT THE COMMISSION APPROVE**  
13 **USE OF FUTURE TEST YEARS FOR ESTABLISHING WASTEWATER**  
14 **SYSTEM RATES IN THIS CAUSE?**

15 A. No; however, given the projected capital expenditure requirements of the Wastewater  
16 System for projects mandated by the consent decree, and those not mandated by the  
17 consent decree, but nonetheless required to provide adequate service, it appears likely the  
18 Authority will be making that request when it files its first rate case in 2013.

19 **Q. MR. KAUFMAN MAKES A SERIES OF PROPOSALS INTENDED TO BIND**  
20 **THE BOARD TO CERTAIN ACTIONS AND CERTAIN RESTRICTIONS ON THE**  
21 **USE OF WATER SYSTEM REVENUES TO THE EXTENT THESE ACTIONS**  
22 **AND RESTRICTIONS ARE INCLUDED IN THE COMMISSION'S ORDER IN**  
23 **CAUSE NO. 43645 (KAUFMAN PAGES 43-44). HOW DO YOU RESPOND?**

1 A. The Water System is a troubled utility under the City's ownership and management. If  
2 that was not true, there would have been no need for relief to have been granted under the  
3 emergency ratemaking statute. Possibly, in that circumstance, the actions and restrictions  
4 enumerated by Mr. Kaufman are appropriate. However, transferring the ownership and  
5 operation of the Water System to the Board creates a new day. The Board is proposing to  
6 create a viable and well-run utility using the operating revenues produced by the rate  
7 structure that will exist for the Water System upon receipt of an Order in Cause No.  
8 43645. That necessarily means the Board must have reasonable discretion to direct  
9 Water System revenues to what constitutes within its good faith judgment the highest and  
10 best use for the long-term viability of the Water System.

11 **Q. CAN YOU ADDRESS MR. KAUFMAN'S SUGGESTION REGARDING A**  
12 **PROCESS TO DISCUSS FUTURE DEBT ISSUANCES FOR THE WATER**  
13 **SYSTEM?**

14 A. We are certainly willing to work with the OUCC on a process for discussions regarding  
15 future issuances of debt. In fact, the Authority is willing to do that with respect to the  
16 Wastewater System as well. It is sensible to promote visibility and understanding in  
17 advance of material increases in the amount of outstanding debt.

18 **Q. MS. STULL RECOMMENDS THE COMMISSION "DECLINE TO APPROVE**  
19 **SECTION 8.14 OF THE WATER APA OR SECTION 8.15 OF THE**  
20 **WASTEWATER APA, OR CLARIFY THAT APPROVAL OF THE PURCHASE**  
21 **AGREEMENTS SHALL NOT BE CONSTRUED AS BINDING ON THE**  
22 **COMMISSION TO DECREASE ITS DISCRETION OR ALLOW RECOVERY IN**  
23 **RATES OF EXPENSES IT CONSIDERS UNREASONABLE, IMPRUDENT,**

**UNLAWFUL OR EXCESSIVE, OR OTHERWISE NOT CONFORMING WITH  
INDIANA RATEMAKING PRINCIPLES.” HOW DO YOU RESPOND TO THAT  
RECOMMENDATION?**

A. First, let me clarify that the sections of the Asset Purchase Agreements cited by Ms. Stull were not intended to and do not bind the Commission. They simply impose an obligation on the Board or the Authority, as applicable, “from time to time to request IURC approval of rates and charges that produce sufficient revenues to pay” certain obligations undertaken in the Asset Purchase Agreements. Nothing in either section imposes an obligation on the Commission to approve a future request that the Board or the Authority might make pursuant to Section 8.14 or 8.15. In addition, a similar requirement or “rate covenant” will be part of the bond indenture that will be executed as part of the process of issuing bonds. Finally, the ratemaking statute requires that utilities provide service in conjunction with “reasonable and just rates and charges for services.”

Likewise, with the limited exceptions described below, nothing in the Asset Purchase Agreements or a final order in this proceeding will limit the Commission’s discretion to determine expenses the Board or the Authority may seek approval of in the future are unreasonable, imprudent, unlawful or excessive, or otherwise not conforming to Indiana ratemaking principles. The items the Board and the Authority are seeking approval in this proceeding to recover through rates are as follows:

- Debt service payments for the assumption or replacement of the Assumed Debt Obligations (as that term is defined in Section 2.04 of the water and wastewater Asset Purchase Agreements);

- 1           • Payments to the City to satisfy the Authority's obligation under Section 2.04(e) of
- 2           the wastewater Asset Purchase Agreement;
- 3           • Debt service payments for the debt issued to fund the Purchase Price as that term
- 4           is defined in the wastewater Asset Purchase Agreement;
- 5           • The costs of issuances and debt service reserve requirements associated with the
- 6           foregoing debt issuances;
- 7           • Transaction costs incurred to consummate the acquisitions; and
- 8           • The Pilot Payments in accordance with Section 3.05 of the wastewater Asset
- 9           Purchase Agreement.

10           Finally, it is worth emphasizing the unintended consequences of any language in  
11           the final order "declining to approve" Section 8.14 of the water Asset Purchase  
12           Agreement, Section 8.15 of the wastewater Asset Purchase Agreement or any other  
13           provision of those agreements. Such language could be confusing and concerning to  
14           rating agencies and bond purchasers.

15           **WASTEWATER CONNECTION FEES**

16           **Q.     OUCC WITNESS STULL ASSERTS WASTEWATER SYSTEM CONNECTION**  
17           **FEES ARE ACTUALLY SYSTEM DEVELOPMENT CHARGES AND,**  
18           **THEREFORE, NOT RECORDABLE FOR ACCOUNTING PURPOSES AS**  
19           **REVENUE. HOW DO YOU RESPOND?**

20           **A.**    The City-County Council approved the Wastewater System rates and this particular  
21           charge as a connection fee. Consequently, it has been appropriate for DPW to record this  
22           fee as Wastewater System revenue. I recognize that the Memorandum attached to Ms.

1 Stull's testimony seems to indicate that the connection fee was designed in a manner  
2 similar to a system development charge. However, the Board has been unable to  
3 determine exactly what costs the connection fee was designed to recover. For instance, as  
4 noted by OUCC witness Pettijohn, the Authority's tariff should contain a tap fee or  
5 inspection fee. The Board believes at a minimum, some portion of the connection fee was  
6 designed to recover the costs for those services.

7 **Q. MS. STULL RECOMMENDS THAT ALL CONNECTION FEE REVENUE**  
8 **RECORDED BY THE WASTEWATER SYSTEM SINCE 2005 SHOULD BE**  
9 **CONSIDERED CONTRIBUTION IN AID OF CONSTRUCTION ("CIAC").**  
10 **HOW DO YOU RESPOND?**

11 A. First, I believe this would constitute retroactive ratemaking. As I explained above, this  
12 particular charge has been approved by the requisite regulatory body as a connection fee  
13 and, therefore, has been appropriately recorded as Wastewater System revenue. Even if  
14 the Commission determined this charge should be a system development charge, I  
15 believe that determination should only be applied prospectively. Also, any such  
16 Commission order should state that the fees are available for debt service and included as  
17 revenue for purposes of debt service coverage calculations. Otherwise, this could  
18 adversely impact the ability to meet debt covenants.

19 Second, it is clear to me that at least some portion of the connection fee is not a  
20 system development charge, but is designed to recover direct and indirect labor and  
21 equipment charges associated with the "tap-in." How much of the connection fee is  
22 intended to recover such costs will be determinable after the Authority has had a chance  
23 to operate the system.

1 Third, the connection fees charged by the DPW have been recorded as revenue  
2 since they were implemented and have constituted an integral part of the past and current  
3 rate structure. Accordingly, the pro-forma revenues used to develop the need for the  
4 Sanitary District's 10.75% rate increase through 2013 include connection fees. Excluding  
5 connection fees from revenue on a going forward basis would require that the other rates  
6 and charges for sewer service increase by more than 10.75% annually to meet the  
7 Wastewater System's revenue requirements.

8 **Q. WHAT DO YOU RECOMMEND REGARDING THE ESTABLISHMENT OF A**  
9 **SYSTEM DEVELOPMENT CHARGE RATHER THAN A CONNECTION FEE?**

10 A. As reflected above, I believe more analysis of the charge needs to be completed to  
11 determine how much of the charge is designed to recover direct and indirect labor and  
12 equipment costs. I would add there is a presumption that the requisite regulatory authority  
13 (the City-County Council) has made the correct determination in its decisions. Far more  
14 evidence than exists in the record in this proceeding is required to overcome that  
15 presumption. I believe the proper time to address this question is in the Authority's first  
16 general rate case. That will be the appropriate forum for all parties to put on evidence to  
17 precisely determine the underlying costs this fee is meant to address.

18 **Q. MS. STULL OPPOSES THE ANNUAL ESCALATION OF THIS CONNECTION**  
19 **FEE. HOW DO YOU RESPOND?**

20 A. Annual escalation of this fee is an integral part of the Wastewater System rate structure  
21 that was approved by the City-County Council and that the Authority is seeking approval



1 to adopt in this proceeding.<sup>8</sup> All revenue to be generated by this rate structure was an  
2 essential part of the analysis that led to the terms of the transaction between the Authority  
3 and the City. Removal of the escalation provision would eliminate approximately \$700  
4 thousand of Wastewater System revenue in 2011-2013 and would constitute an adverse  
5 change in the terms of the transaction for the Authority.

6 **ACCOUNTING FOR THE ACQUISITIONS**

7 **Q. MS. STULL MAKES RECOMMENDATIONS REGARDING HOW THE BOOKS**  
8 **AND RECORDS OF THE WATER AND WASTEWATER SYSTEMS SHOULD**  
9 **BE MAINTAINED UPON TRANSFER OF SUCH SYSTEMS TO THE BOARD**  
10 **AND THE AUTHORITY, RESPECTIVELY (STULL PAGE 16). HOW DO YOU**  
11 **RESPOND?**

12 **A.** I believe we are largely in agreement. I note that as an initial matter, Ms. Stull agrees the  
13 one-year period we propose for finalizing opening balance sheets is reasonable and  
14 conforms to Generally Accepted Accounting Principles. As Ms. Stull recommends, the  
15 Board and the Authority plan to maintain the books and records of the Water and  
16 Wastewater Systems, respectively, in accordance with Generally Accepted Accounting  
17 Principles and the NARUC Uniform System of Accounts. Moreover, we plan to close  
18 such books on an accrual accounting basis each month.<sup>9</sup> That is a substantial  
19 improvement from the City's current practice of maintaining such books on a cash  
20 accounting basis until the time of the year-end audit. This improvement in the  
21 accounting process will enhance the visibility and usefulness of the books and records for

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<sup>8</sup> As of January 1, 2011 the connection fee was \$2,530.

1 all stakeholders, including the OUCC and the Commission, and represents another public  
2 interest benefit that results from the proposed transfer.

3 **Q. MS. STULL RECOMMENDS THAT BOARD AND THE AUTHORITY SHOULD**  
4 **NOT BE ALLOWED TO INCLUDE IN FUTURE RATES THE AMORTIZATION**  
5 **OF ANY ACQUISITION ADJUSTMENT THAT IS REQUIRED TO BE**  
6 **RECORDED UNDER GAAP OR REGULATORY ACCOUNTING PRINCIPLES**  
7 **(STULL PAGE 14). HOW DO YOU RESPOND?**

8 A. The Board and the Authority agree, but point out that the amortization of any acquisition  
9 adjustment recorded with respect to the Wastewater System may well be a negative  
10 amount as I described above. Consequently, any negative amount of amortization should  
11 be excluded from future rates just as would be the case with any positive amount of  
12 amortization.

13 **Q. MS. STULL RECOMMENDS THAT ANY WATER SYSTEM OR**  
14 **WASTEWATER SYSTEM CUSTOMER DEPOSITS TRANSFERRED TO THE**  
15 **BOARD OR THE AUTHORITY SHOULD RETAIN THEIR CLASSIFICATION**  
16 **AS CUSTOMER DEPOSITS (STULL PAGE 16). HOW DO YOU RESPOND?**

17 A. The Board and the Authority agree with Ms. Stull.

18 **Q. MS. STULL ACCEPTS YOUR PROPOSED SHARED SERVICES COST**  
19 **ALLOCATION PROPOSAL AND RECOMMENDS THE METHODOLOGY BE**  
20 **REVIEWED EVERY THREE TO FIVE YEARS DURING THE COURSE OF A**  
21 **RATE CASE FILED BY ONE OF CEG'S AFFILIATED UTILITIES. HOW DO**  
22 **YOU RESPOND?**

23 A. The Board and the Authority believe this is a reasonable proposal.

1 **Q. MS. STULL RECOMMENDS THAT THE WASTEWATER SYSTEM RECEIVE**  
2 **AN APPROPRIATE ALLOCATION OF ANY SHARED METER READING**  
3 **COSTS. HOW DO YOU RESPOND?**

4 A. The Board and the Authority agree, in fact I took this into consideration in preparing  
5 Petitioner's Exhibit JRB-4.

6 **CIG TESTIMONY**

7 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY WITH RESPECT TO**  
8 **CIG WITNESS GORMAN.**

9 A. Mr. Gorman's recommendations rest on his assertion that the acquisition of the  
10 Wastewater System by the Authority would harm ratepayers through higher cost of  
11 service. On page 4 of his testimony, Mr. Gorman says "clear evidence" exists that the  
12 transaction will result in substantially higher wastewater cost of service. However, Mr.  
13 Gorman's "clear evidence" is derived from the wrong information and based on  
14 erroneous calculations using such wrong information, all of which were incorporated into  
15 his Exhibit MPG-1. Consequently, Mr. Gorman's conclusions are built on an analytical  
16 house of cards. Using this house of cards, Mr. Gorman claims the costs of the transaction  
17 outweigh the projected synergies and that such excess should be subtracted from the  
18 revenue requirement until it includes only "acquisition-related costs that are offset by  
19 acquisition-related savings" (page 13, line 5). Based on this erroneous analysis, Mr.  
20 Gorman proposes decreasing the 2012 and 2013 rate increases, which already have been  
21 approved by the City-County Council. My rebuttal testimony explains his foundational  
22 errors and shows that his conclusions are wrong as a consequence.

1   **Q.   PLEASE   EXPLAIN   HOW   MR.   GORMAN   USED   THE   WRONG**  
2   **INFORMATION.**

3   A.   The workpaper Mr. Gorman used as the foundation for his analysis was prepared in April  
4   2009 for the purpose of supporting the DPW rate increase request before the City-County  
5   Council. However, it does not follow that the source document that should be used for  
6   appropriate comparison of Wastewater System operations under the Authority's  
7   ownership is the document that was used to support the rate increase request before the  
8   Council. Time moves on from when rates are approved and estimates of costs can  
9   change as a result. When the Board and the Authority commenced detailed due diligence  
10   of the Wastewater System we requested the most up-to-date cost information available.  
11   To do otherwise would violate all the principals of good analysis. The information we  
12   received from the City was dated October 29, 2009 and was included in the workpapers  
13   we filed in this Cause (see filed JRB workpaper "DPW Financial Analysis"). The DPW  
14   Financial Analysis workpaper formed the baseline for the Board's and the Authority's  
15   financial due diligence on the Wastewater System and it was this baseline, and  
16   adjustments to this baseline resulting from the due diligence investigation, that was  
17   incorporated into the financial model I presented in this case as Petitioner's Exhibit JRB-  
18   1. Consequently, by using a different workpaper for his baseline, Mr. Gorman has  
19   committed a fundamental analytical error. By making comparisons between Petitioner's  
20   Exhibit JRB-1 and a baseline that was not used in developing Petitioner's Exhibit JRB-1,  
21   Mr Gorman is not making an apples-to-apples comparison. The outdated workpaper Mr.  
22   Gorman used in his analysis includes operating costs and debt issuances in the 2009-2013  
23   period that had been revised upward by the time the DPW Financial Model was prepared.

1    **Q.    PLEASE EXPLAIN MR. GORMAN'S ERRONEOUS CALCULATIONS.**

2    A.    Mr. Gorman made a major error in improperly classifying wastewater operation and  
3           maintenance ("O&M") costs as capital expenditures. Specifically, Mr. Gorman treated  
4           the line item labeled "additional O&M for CIP" as a capital expenditure. This line item  
5           is not a capital expenditure. It represents the O&M costs of new capital projects when  
6           such capital projects go into service. Such costs are clearly shown as operating expenses  
7           in both the wrong workpaper that Mr. Gorman used and the DPW Financial Model  
8           workpaper. Nevertheless, Mr. Gorman treated this line item as a capital expenditure.  
9           Such improper classification incorrectly decreased projected O&M costs, thereby causing  
10          Mr. Gorman's analysis to understate the amount of cost savings to be realized after the  
11          transaction.

12           Another major error Mr. Gorman made in his analysis is including no increase in  
13          debt service after the year 2013. This error springs from his original error of using the  
14          wrong workpaper as the foundation of his analysis. The workpaper that was used to  
15          support the DPW rate increase ignored all capital expenditure projections beyond 2013  
16          because its purpose was only to project revenue requirement needs through 2013 as that  
17          was the final time period covered by the DPW rate increase request. This error materially  
18          understates debt service costs, thereby causing Mr. Gorman's analysis to further  
19          understate the amount of cost savings to be realized after the transaction.

20           The errors Mr. Gorman made are so fundamental and substantial that his analysis  
21          summarized in his Exhibit MPG-1 is meaningless. As a result, all of his conclusions that  
22          flow from that analysis have no foundation and must be rejected. These unfounded

1 conclusions include, but may not be limited to items 1, 2 and 5 in the summary on pages  
2 2 and 3 of his testimony.

3 The analysis provided in my direct testimony shows that the Wastewater System,  
4 as well as each of the other utilities owned and operated by the Board, will receive  
5 benefits from the transaction that outnumber the incremental costs of the transaction.

6 **Q. DO YOU HAVE OTHER REBUTTAL OF MR. GORMAN?**

7 A. Yes. Mr. Gorman is in general agreement with the proposed CSS allocations, which  
8 would distribute a fixed 10% of shared support costs to wastewater and the remainder to  
9 the other entities of the Trust while still ensuring net savings for each. However, even  
10 though he acknowledges that exhibits supporting this allocation were presented, he does  
11 not consider them to provide enough evidence. Indeed, he states that more detailed proof  
12 is required (page 6, line 12), that it should be demonstrated that other utility systems  
13 operated by Citizens will not be detrimentally impacted (page 6, lines 17 through 19),  
14 that projected cost savings need to be "verifiable" (page 8, line 11) before the  
15 Commission accepts the proposal, and that the acquisition price should be adjusted to  
16 reflect an offset equal to the "verifiable acquisition-related savings" (page 10, lines 4  
17 through 5).

18 Mr. Gorman's line of reasoning is flawed. First, projections by nature are not  
19 verifiable until after the fact. To delay any transaction until projections are verified would  
20 be to delay it indefinitely. Second, while Mr. Gorman mentions Petitioner's exhibit JRB-  
21 4, indicating that he did review it, he apparently misunderstood it. Petitioner's Exhibit  
22 JRB-4 shows that projected savings for each Citizens entity are substantial. This  
23 demonstrates the proposed acquisition is projected to benefit all operations.

1 For the sake of eliminating misunderstanding it is necessary to point out that Mr.  
2 Gorman mischaracterizes the baseline CSS allocation to wastewater of 18.3% as  
3 producing \$367 million of allocated "costs" (page 7, line 11). Petitioner's exhibit JRB-4  
4 has this amount clearly labeled as "savings."

5 Mr. Gorman states that only \$2.6 million of corporate synergy savings were  
6 projected "throughout" the first three years of the transaction, and that no projections  
7 were made for the remaining years (page 8, lines 6 through 8). In response to OUCC's  
8 data request 30-11 that was also provided to CIG, Petitioner provided a detailed  
9 workpaper delineating projected savings by type of cost, including CSS costs, for the first  
10 15 years after acquisition. The information on this workpaper can easily be analyzed to  
11 show cumulative projected savings in CSS alone of \$52.5 million for the first three years,  
12 and \$440.0 million over the entire 15 year period, an average of \$29.3 million per year.  
13 The same response also explained that the mechanism for projecting savings beyond the  
14 first three years is based on an inflationary rate. This was also described in Mr. Flaherty's  
15 testimony on page 45, lines 7 through 21, and page 46, line 17.

16 **Q. DOES THAT CONCLUDE YOUR PREPARED REBUTTAL TESTIMONY?**

17 **A.** Yes.





Revenue  
Special Report

# 2010 Water and Sewer Medians

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## Related Research

Applicable Criteria  
• *Revenue-Supported Rating Criteria, Dec. 29, 2009*  
• *Water and Sewer Revenue Bond Rating Guidelines, Aug. 6, 2008*  
Other Research  
• *2010 Water and Sewer Sector Outlook, Feb. 10, 2010*

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## Summary

The 2010 medians continue Fitch Ratings' effort to provide transparency to market participants by giving a clear understanding of certain statistical ratios used in its review of water and sewer revenue bond credits as they pertain to retail systems. For the most part, the key findings for 2010 continue trends Fitch has observed over the past several years and that form the basis of credit drivers discussed in Fitch Research "2010 Water and Sewer Sector Outlook," dated Feb. 10, 2010, available on Fitch's Web site at [www.fitchratings.com](http://www.fitchratings.com). The medians continue to point to ongoing capital pressures, but perhaps more importantly in the current economic climate, they highlight the sector's sustained fiscal health. Certainly, particular regions and classes of utilities are facing greater near term stress than their counterparts, and Fitch anticipates that the cumulative effect could diminish future median results somewhat. Nevertheless, water and sewer utilities overall appear well positioned to continue generating solid financial performance to bondholders throughout the current economic cycle.

## Overview

### Key Findings

#### National Medians

- Capital costs are down but debt levels will continue to climb, albeit at a reduced rate from prior estimates.
- Debt service coverage remains strong, but cash flows are showing some weakening.
- Liquidity continues to be exceptionally healthy and has even improved since the 2009 medians.
- While user costs remain very affordable, offsetting some concerns regarding forecast escalating rate hikes, near-term concerns revolve more around political willingness to raise rates to generate full cost recovery in the current economy.

#### Regional Medians

- The Far West produces the strongest financial results, with the region generating the highest debt service coverage, having the most liquidity, and yielding the strongest cash flows.
- The Midwest faces little or no growth needs and continues to produce an adequate financial profile along with one of the lowest cost structures.
- Fitch considers the Northeast region as having perhaps the greatest overall challenges sectorwide due to weaker financial metrics, higher existing leverage, and a more expensive cost structure.
- The Southeast continues to produce financial results that mirror or are better than the national medians, with the exception that cash flow performance has fallen.
- Financial results within the Southwest continue to be positive, but given the customer growth rates and age of facility assets, the region could face some of the greatest capital pressures over the immediate horizon.

### *Medians Relative to System Size*

- Large systems have the greatest amount of debt and produce the lowest financial margins, which could make it challenging to absorb future capital requirements.
- While midsize systems are expected to face some of the highest cost of service increases, these utilities currently produce the most favorable financial metrics, affording some flexibility in addressing capital funding requirements without significantly weakening their overall financial profile.
- Small systems should continue to generate favorable credit metrics given the level of capital needs and the anticipated amount of equity funding.

### **Limitations of Medians Analysis in the Rating Process**

While the medians serve as a useful tool for market participants by allowing for broad assessments and comparisons of credit quality, Fitch maintains that the data are a complement to the rating process rather than a substitute. Thus, when evaluating the medians in relation to the rating process, certain distinctions between them should be noted, as follows:

- Medians largely provide a point-in-time snapshot of the rating category, region, class size or sector as a whole, whereas the rating process focuses more on trends at the issuer and specific rating level.
- Only a portion of the factors covered in Fitch's rating process are reflected in the medians — in particular, qualitative aspects such as management, policies, and legal provisions are excluded, although other quantitative ratios are also omitted.
- The medians within each table present a composite of the range of credits and do not delineate offsetting strengths or weaknesses at the individual credit level that may affect a rating.

### **New Information and Changes for 2010**

With each round of medians, Fitch continuously seeks to refine the data presented to provide information that is timely and useful to market participants regarding the sector. Some of the changes that have been made this year are the direct result of discussions with issuers, consultants, and investors since publication of the 2009 medians. With the 2010 medians, Fitch notes the following changes:

- The regional medians are now included in this report as Appendix C, page 18.
- The medians related to system size are also included in this report as Appendix D, page 19.
- New medians relating to growth in operating revenues and operating expenses are now included to provide more information for factors contributing to utility cash flow performance.
- Fitch has ceased reporting the statistical median related to the year through which ensured water supply is available as the measurement of this ratio is increasingly problematic, particularly as issuers adjust to the current economic environment and its effects on consumption levels.

### **Recalibration**

Based on Fitch Research "Recalibration of U.S. Public Finance Ratings" dated March 25, 2010, available on Fitch's Web site at [www.fitchratings.com](http://www.fitchratings.com), water and sewer sector ratings will be recalibrated April 30, with limited exception. Data presented in this report at the categorical rating level, specifically Appendix F (page 21), have been adjusted to reflect the statistical results based on the recalibrated ratings.

## National Medians

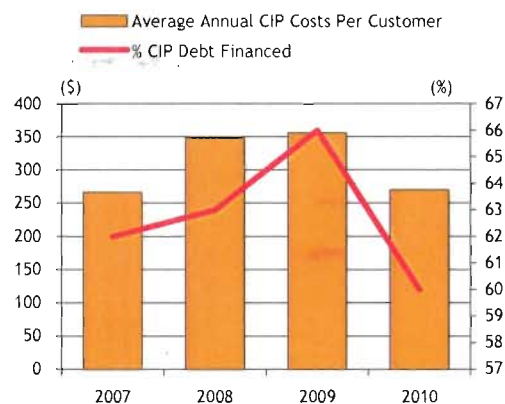
### Capital and Debt

Water and sewer utilities face massive capital needs to meet the ongoing pressures associated with aging infrastructure, regulatory requirements, and growth. This latest round of medians, as well as those from Fitch's prior-year reports, statistically confirms these pressures, although the overall costs facing utilities appears to have diminished somewhat from recent medians reports. Having said this, sector capital needs remain well above available resources, which will continue to necessitate significant levels of borrowing for at least the next several years.

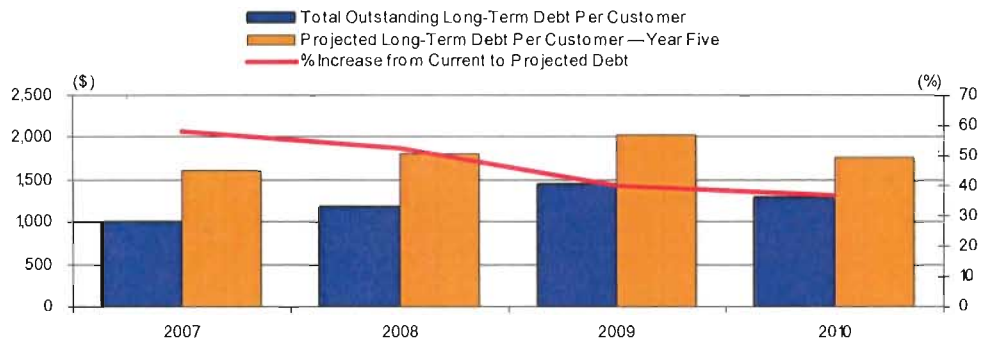
With the 2010 medians, forecast annual capital spending per customer is \$273, which equates to roughly \$24 billion in expected outlays per year nationwide over the next five years. While this amount of spending is substantial, anticipated capital expenditures per customer are down 23% from the 2009 medians. Based on discussions with issuers and reviews of issuer capital improvement programs (CIPs), Fitch estimates that the drop principally is attributable to the deferral of growth-related projects after the collapse in residential construction and the resulting slowdown in new customer connections, as well as a more favorable bidding environment for issuers, which has reduced project costs. Fitch also believes the reduction in CIPs reflects some degree of budgetary pressure as local governments have reduced capital spending to limit service cost escalation to customers in the current economic climate.

On the positive side, the cuts in capital spending have resulted in reduced customer and per capita debt levels from prior medians for the current year, as well as the ensuing five-year projections. Consequently, these debt medians, which currently are moderate at \$1,297 per customer and \$375 per capita, are expected to remain manageable over the intermediate term. The cuts in capital spending have also afforded utilities the ability to

Capital Costs and Funding



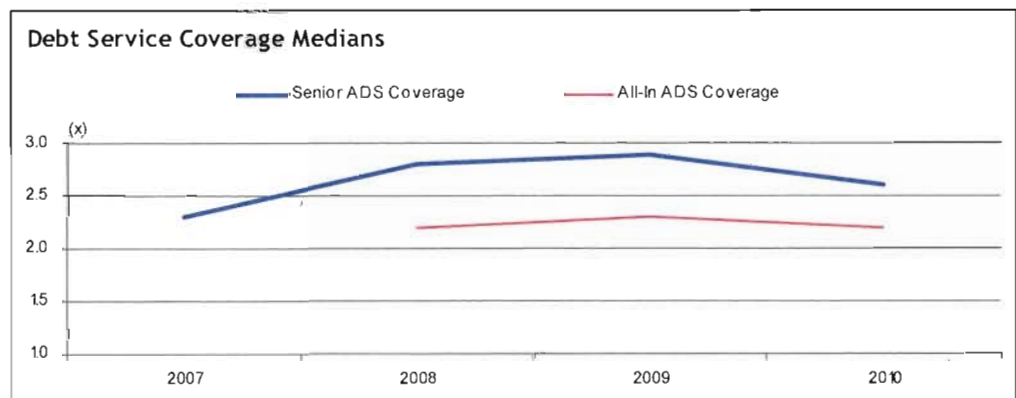
Debt Medians



incorporate a greater share of planned equity funding for their CIPs (40% total), possibly signaling a pullback from a negative trend toward ever increasing debt reliance that had developed and reached 66% with the 2009 medians.

However, even with these positives, there are some concerns regarding the sector's long-term capital demands and how these costs ultimately could affect the debt profile of utilities. First, the pace of spending for renewal of assets as reported in the 2010 medians failed to keep pace with the level of annual depreciation, leading to a slight increase in the age of utility assets to 13 years from 12 years in the 2009 medians. This does not represent a wholesale deterioration in the quality of utility infrastructure as plant age for 2007 and 2008 medians also reached 13 years, but it does increase the level of deferred maintenance that must be addressed in future years. In addition, as deferred maintenance increased for the year and new debt was added to issuers' balance sheets, the debt burden relative to undepreciated system assets increased to 43% with the 2010 medians, compared to 39% the prior year. Given the rise in planned equity contributions to capital programs over the next five years, debt as a percentage of system assets ultimately should be reduced. However, if utilities revert to the historical trend of increased debt reliance, leverage ratios relative to capital assets likely would continue to climb. Second, while the current rate of growth in customer debt levels over the next five years is less than prior medians, the annual percentage increase in debt burden is still expected to rise faster than the expected rate of inflation. With the 2010 medians, customer debt levels are forecast to rise 37% over the ensuing five years — an annually compounded rate of 8.1%.

Officials may seek to limit the immediate effect of the escalating debt burden on the rate base through measures such as extension of principal amortization instead of absorbing a more traditional amortization schedule and enacting incrementally higher rate hikes. But a trend toward continued extension of amortization would be viewed negatively by Fitch as it would lead to an ever rising fixed cost structure over the long-term which in turn would erode future financial flexibility. Officials may also seek to limit the impact to ratepayers by reducing their expected cost of funds through the increased utilization of variable-rate debt, short-term instruments, and/or derivative products. Fitch also would view this as a negative credit development as it would elevate the risk profile of the sector, although it should be noted that the sector overall currently has limited exposure to these products.



### Debt Service Coverage

Despite the drop in customer debt levels with the 2010 medians compared to prior years, median annual debt service (ADS) coverage showed some softening from previous median results. However, the sector continued to post impressive margins, comfortably exceeding typical rate covenants. For the 2010 medians, senior lien ADS coverage was a

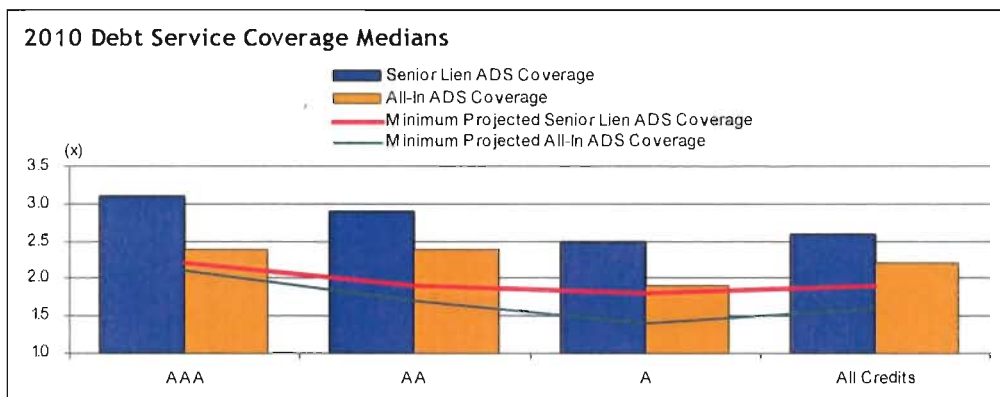


strong 2.6x sectorwide and total ADS coverage was 2.2x. In terms of debt as a percentage of operating revenues, the burden to systems is relatively modest considering the capital-intensive nature of the industry — only 16% on a senior lien basis and 18% on an all-in basis — and comparable with that of single-purpose local governments like school districts.

When considering revenues used in calculating ADS coverage, Fitch includes all pledged revenue sources but also calculates ADS coverage without one-time revenues such as connection fees, provided they are pledged to bondholders. Because residential development is a large contributor to these types of revenues, and also because of the collapse in the national residential housing market, Fitch began reporting senior lien ADS coverage without these sources as part of its 2008 medians to provide the market with additional information on exposure to the sector. To enhance this information, Fitch elected to publish the same data as it relates to total debt beginning with the 2009 medians.

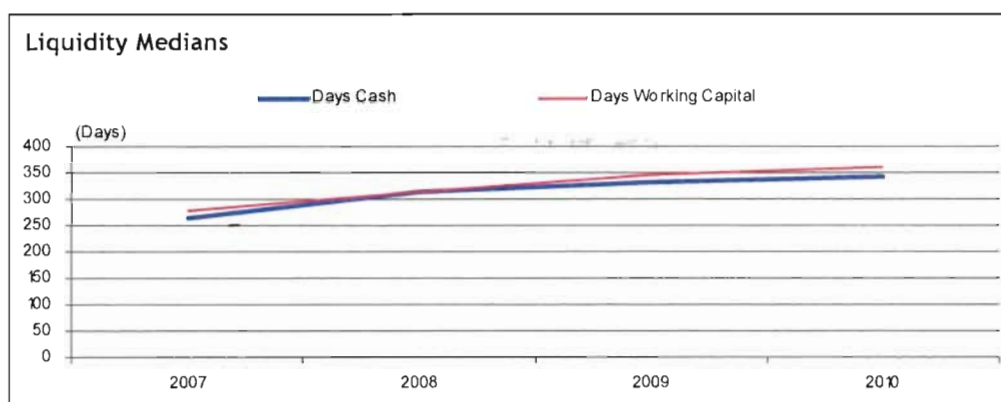
While most systems collect such fees, the elimination of connection charges from net revenues does not lead to a significant reduction in current senior lien ADS or total ADS coverage for the sector; the median falls to 2.4x from 2.6x on senior lien debt and to 1.9x from 2.2x for all debt. However, the effect on coverage varies considerably from credit to credit.

Currently, issuers are anticipating senior lien ADS coverage will fall from an existing 2.6x to a minimum of 1.9x as additional debt is incurred over the five-year forecast period. Similarly, all-in ADS coverage is anticipated to weaken, albeit to a lesser degree, with margins expected to drop from 2.2x to lows of 1.6x. While Fitch fully expects coverage levels will continue to soften over the next few years from increased leveraging and weak collection of growth-related fees, it is important to note that each of Fitch's prior medians anticipated similar declines but actual results have been much more positive. Consequently, Fitch believes issuer forecasts generally are conservative and that, while some deterioration in coverage should occur, the extent of such declines could be significantly less than anticipated. Having said this, Fitch is somewhat cautious in its characterization of future debt service coverage expectations given the discussions below regarding the recent weakening in utility cash flows and the estimated level of rate increases being proposed over the next several years, which may be difficult to achieve.



### Liquidity, Cash Flows and Rate Flexibility

Similar to the sector's strong ADS coverage levels, other current financial indicators are positive. Liquidity, in particular, is healthy and has steadily increased year over year. For the latest medians, days cash on hand was 344, up from 266 in 2007, while the current level of working capital of 361 days reflects an increase from 279 over the same period. Also, the quick ratio and current ratio both improved from 2009 to a solid 3.3x and 3.8x, respectively, in 2010.



This flexibility of utility reserves is attributable to the sector's historically solid cash flows, which have produced the high ADS coverage discussed above and traditionally led to surplus operations. With the 2010 medians, cash flows remained good nationally but they weakened somewhat from 2009 levels as rising expenditures outpaced revenue gains. Consequently, free cash (e.g. surplus revenues after payment of operating and debt service costs and operating transfers out) equaled just 107% of depreciation for 2010 compared to 122% in 2009. While the 2010 figure indicates that utilities rated nationwide continue to generate sufficient cash flows to cover depreciation expense, a continuation of the weak economy coupled with a challenging rate environment, could lead to further reductions in utility cash flows that might push the free cash to depreciation figure below 100% with future medians and possibly lead to an increase in the level of deferred maintenance.

In light of the economic, capital, and political pressures that could affect ongoing utility financial performance, a major strength for the sector is the historically low cost of service provided to customers and the possibility that financial performance could be bolstered with relatively little effect on ratepayers. The current median combined water and sewer utility bill for the sector is just \$59 per month, equal to a moderate 1.5% of median household income (MHI). In determining utility charge affordability, Fitch uses a threshold of 1% of MHI for individual water and sewer utilities and 2% for combined systems, so the current level of cost is sufficiently below the relative level of perceived affordability.

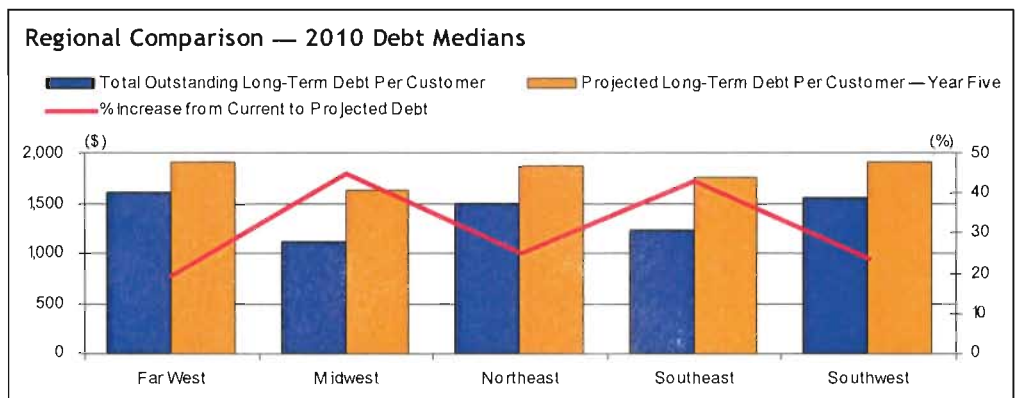
Systems are forecasting that user charges will increase over the next few years, and the level of these planned hikes could erode flexibility given the median annual adjustments would likely exceed growth in median household income. However, Fitch believes that even if hikes are enacted as planned, overall escalation in costs would still provide utilities at the national median level an adequate measure of affordability under Fitch's benchmarks. Nevertheless, Fitch believes that concerns related to rate affordability will be less of a factor over the next couple of years than willingness of ratemakers to implement planned adjustments in the face of weak economic conditions and the need to raise revenues from

constituents for other purposes.

While Fitch considers political unwillingness to raise rates a significant near-term credit driver, current sector health mitigates widespread concern. In addition, there is strong indication that while utility performance may weaken somewhat over the immediate horizon, financial results will continue to be maintained at strong levels given covenants and long-standing policies developed by issuers that have led to the sector's current level of performance. Of the issuers included in the medians both currently and historically, many reported either bond covenants or internal policies to fund one or more of the following types of reserves:

- Rehabilitation and replacement funds.
- Operating funds.
- Rate stabilization funds.

In addition, many issuers reported target senior lien or all-in ADS coverage levels used to budget or forecast operations that exceeded required rate covenants. These standards serve to enhance basic legal provisions (i.e. rate covenant, additional bonds test, and debt service reserve requirements), and Fitch continues to believe that systems using such practices will be positioned to handle pressures associated with the current economic environment and the sector's traditional challenges.



## Regional Medians

### Far West

Of all the regions, the Far West produces the strongest financial results, with the region generating the highest debt service coverage, having the most liquidity, and yielding the strongest cash flows. These results have been produced despite an escalation in operating expenses over the last few years that have outpaced revenue gains. Over the next few years, the challenges facing the region will include absorbing some of the

### States Included in 2010 Medians by Region

Far West	Midwest	Northeast	Southeast	Southwest
California	Illinois	Delaware	Florida	Arkansas
Hawaii	Indiana	District of Columbia	Georgia	Arizona
Utah	Michigan	Massachusetts	North Carolina	Colorado
—	Missouri	New Jersey	South Carolina	Louisiana
—	Ohio	New York	Virginia	New Mexico
—	—	Pennsylvania	—	Texas

highest levels of capital spending relative to other regions without significant deterioration of existing financial performance. While debt per customer and per capita are amongst the highest in the nation, the overall cost of service is manageable compared to income levels, which, combined with existing financial flexibility, should allow the region to continue producing healthy results for the foreseeable future.

### **Midwest**

The Midwest continues to face capital pressures associated with renewal and replacement of the oldest infrastructure in the nation. However, the region faces little or no growth needs and continues to produce an adequate financial profile along with one of the lowest cost structures. Also, the region is the only one in the country where 2010 median growth in operating revenues exceeded operating expenditure increases, signaling a strong commitment by ratemakers to bolster cash flows and maintain existing financial metrics. Over the next few years, continued rate hikes will be necessary to absorb planned debt issuances, which could pressure the rate base if weak economic conditions persist or the rate base experiences continued contraction, as was the case with sewer customers for 2010.

### **Northeast**

Like the Midwest, the Northeast will continue to face capital pressures primarily related to renewal of utility assets. Given the level of existing leverage and a cost structure that is greater than the Midwest, as well as financial metrics that are weaker than the Midwest, Fitch considers the Northeast region as having perhaps the greatest overall challenges sectorwide. However, the Northeast's current debt profile reflects a sizable amount of investment in infrastructure replacement from prior years. Consequently, the region's infrastructure age approximates the national median, providing some degree of capital spending flexibility, if needed.

### **Southeast**

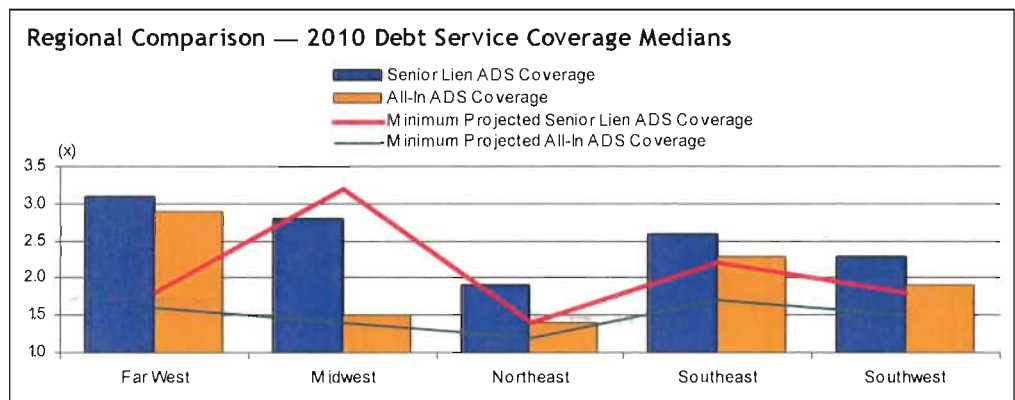
The Southeast continues to produce financial results that mirror or are better than the national medians, with the exception that cash flow performance has fallen, with free cash equaling just 97% of depreciation for the current medians compared to the 135% produced with the 2009 medians. While growth rates remain moderate, actual customer growth is roughly one-half the level from a couple of years ago. Consequently, the housing weakness has allowed utilities within the region to defer a portion of capital spending for the time being. As a byproduct of this deferral, expected debt issuance has also dropped from prior years and is now less than one-half of all expected capital funding sources. Despite this positive, the overall debt burden is expected to continue to increase over the next five years given the relatively weak amortization rates within the region, which are the second slowest in the country. Nevertheless, the region should retain a good deal of financial and capital flexibility relative to other regions over the next several years given the current financial levels and the ability to defer maintenance on utility assets, which are the youngest of any region.

### **Southwest**

Financial results within the Southwest continue to be positive, but given the customer growth rates and age of facility assets, the region could face some of the greatest capital pressures over the immediate horizon. Ultimately this may weaken financial performance to some degree. However, the region has a relatively low cost structure and traditionally has amortized debt the fastest. Consequently, the region has a good deal of flexibility in addressing the high amount of expected leverage without significantly altering its existing financial profile, which is slightly weaker than the



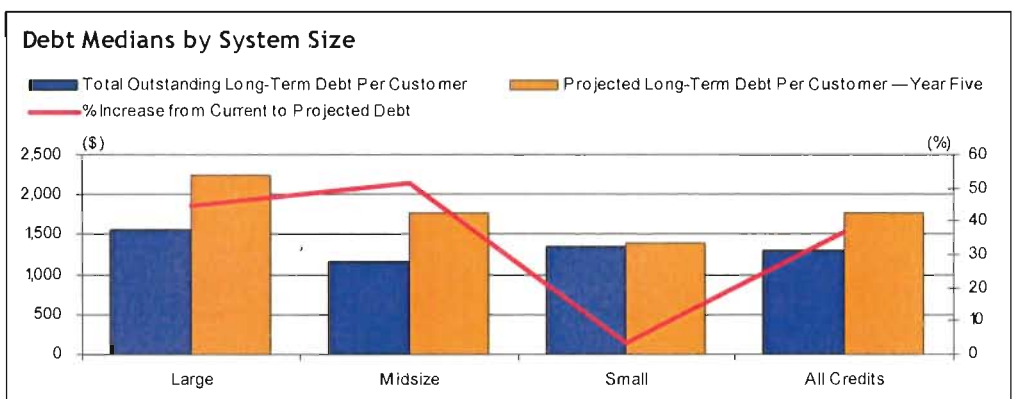
overall national medians.



## Medians Relative to System Size

### Large Systems

Large systems have the oldest infrastructure of all water and sewer utilities and consequently face the greatest level of capital renewal needs. Over the last couple of years, large utilities have also experienced growth rates that have outpaced smaller systems, necessitating investment to expand capacity. Combined, these pressures have led to increased borrowing and a debt profile that is higher than other utilities'. Another result of these pressures has been the extension of principal amortization rates to limit the immediate impact to ratepayers. While financial metrics for large borrowers are only marginally weaker than other systems', large systems face increased challenges to absorb capital costs within their existing cost structures, which are expected to require ongoing rate hikes that will be greater than what smaller utilities are expected to experience nationwide.



### Midsize Systems

Midsize systems have the most favorable financial profiles of all systems, exhibiting typically higher levels of liquidity and stronger cash flows. However, the capital pressures associated with these systems is expected to necessitate ongoing rate hikes that will increase at a rate faster than the national norm. Somewhat offsetting this concern, midsize utilities tend to have a moderate cost of service, thereby limiting the

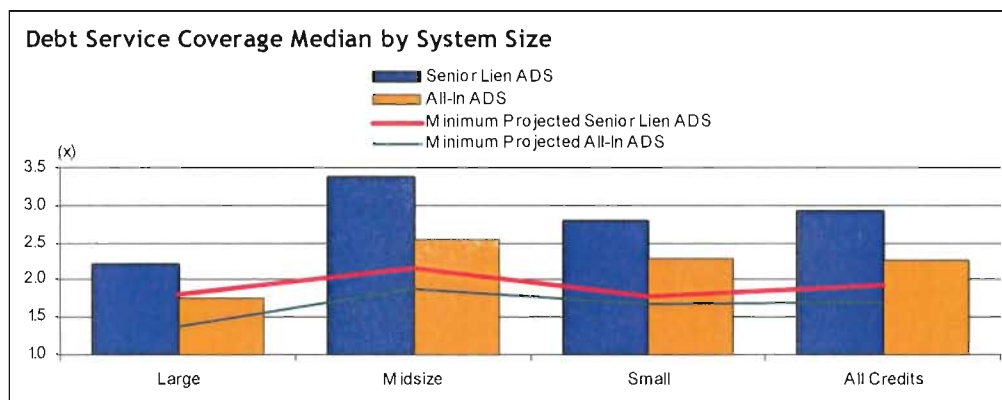
anticipated escalation in user charges to the rate base beyond what is expected throughout the sector. Also, with the most financial flexibility of any class of systems, midsize utilities have some capacity to scale down projected rate hikes without significantly weakening their overall financial metrics relative to large and small systems.

### Small Systems

Small systems produce debt service coverage and cash flows similar to their midsize counterparts, but with the latest medians small utilities produced liquidity that is slightly below national results. In prior medians, small systems produced stronger levels of liquidity, but with the 2010 medians there was a dramatic shift in the manner of CIP funding to much higher levels of equity sources (the 2010 CIP debt funding is expected at only 36% compared to 64% in 2009). This shift reduced reserve levels somewhat but was offset by a drop in many of the debt metrics of these systems. Another positive for small systems is that annual capital costs are expected to be the lowest of all utilities, which ultimately should afford smaller entities the ability to continue producing healthy financial metrics. Having said this, smaller utilities face potentially greater operating environment volatility, although to date any effect of this volatility has been muted at the medians level.

### System Size Classification

System Size	Population Served
Large	≥ or equal to 500,000
Midsize	100,000–499,999
Small	< 100,000



## Methodology and Data

### Overview

Fitch first published its water and sewer medians in 2004 to provide issuers, consultants, analysts, investors, and others with a quantitative framework of ratios used in Fitch's water and sewer rating process. To this end, Fitch historically has grouped the medians according to their respective area within the criteria review process, and the 2010 medians continue this practice. This report also continues Fitch's presentation of key ratios used in the rating process (*see table, page 11*) to give the market a better understanding of the priority in weighting certain ratios. To allow a comparison with prior statistics, Fitch also has included historical information from the 2007–2009 medians (*see Appendix E, page 20*); the 2004 medians were excluded, given that the methodology for selection of credits was revised following its release. It is Fitch's anticipation to add subsequent information annually to

this table as ensuing medians are published to allow readers to follow long-term trends.

### Key Ratios Used in the Rating Process — 2010 Medians

	Rating Category			All Credits
	AAA	AA	A	
Capital Demands and Debt Policies				
Debt to FADS (x)	3.6	5.5	6.7	5.5
Total Outstanding Long-Term Debt Per Customer (\$)	827	1,462	1,738	1,297
Total Outstanding Long-Term Debt Per Capita (\$)	219	384	518	375
Projected Debt Per Customer — Year Five (\$)	1,260	1,861	2,641	1,774
Projected Debt Per Capita — Year Five (\$)	443	446	606	446
Coverage and Financial Performance/Cash and Balance Sheet Considerations				
Three-Year Historical Average Senior Lien ADS Coverage (x)	3.2	2.8	2.2	2.9
Current Senior Lien ADS Coverage (x)	2.9	2.5	1.9	2.6
Minimum Projected Senior Lien ADS Coverage (x)	2.4	1.9	1.6	1.9
Three-Year Historical Average All-In ADS Coverage (x)	3.1	2.2	2.2	2.4
All-In ADS Coverage (x)	2.7	2.1	1.6	2.2
Minimum Projected All-In ADS Coverage (x)	1.9	1.5	1.2	1.6
Days Cash on Hand	544	344	171	344
Days of Working Capital	495	361	123	361
Free Cash as % of Depreciation	95	110	84	107

FADS – Funds available for debt service.

### Data Set

As with Fitch's prior medians, those for 2010 cover only wholly or predominantly retail systems for which Fitch has taken rating actions on senior lien debt. The data include water and sewer revenue bond credits rated between September 2008 and August 2009. Certain credits have been excluded for various reasons, as outlined below (*for a complete list of issuers included in the 2010 medians, see Appendix B, page 15*). In cases where the same issuer was rated multiple times, only data from the most recent rating were incorporated into the medians.

In the 2010 medians, combined water and sewer utilities accounted for 72 credits (60% of the total), individual water systems numbered 26 (22%), and individual sewer systems were 21 (18%). Excluded for median-reporting purposes from the 2010 data set are certain credits with ratings of 'BBB+' or below (pre-recalibration) because Fitch traditionally has viewed these issuers as outliers with extenuating circumstances. Also excluded were issuers for which the majority of system revenues were derived from other utility (i.e. electric power) revenues. In both these cases, the data have a tendency to skew median results.

## Appendix A: Water and Sewer Median Definitions

Median	Definition	Significance
Population	Estimated population of the service area	Provides an overview of the scope of operations in the service area
Median Household Income (\$)	Median household income for the primary municipal entity served by the utility based on the most recent year as reported by the U.S. Census Bureau	Indicates the overall wealth of average residential customers and their ability to pay for services
Total Water Customers	Most recent water customer accounts total, if applicable	Provides an overview of the scope of operations in the service area
Water Customer Annual Growth (%)	Percentage of historical average annual customer accounts growth rates	Indicates the pressures a utility may be facing to meet customer demands
Total Sewer Customers	Most recent sewer customer accounts total, if applicable	Provides an overview of the scope of operations in the service area
Sewer Customer Annual Growth (%)	Percentage of historical average annual customer accounts growth rates	Indicates the pressures a utility may be facing to meet customer demands
Top 10 Customers as % of Revenues	Total annual receipts from the 10 largest customers divided by total operating system revenues for the year	Indicates revenue concentration levels
Age of Plant (Years)	Total accumulated depreciation divided by annual depreciation	Indicates potential deferred plant maintenance
Water Treatment Capacity Remaining (%)	Percentage of permitted treatment capacity remaining above most recent production level	Indicates the pressures a utility may be facing to meet customer demands
Sewer Treatment Capacity Remaining (%)	Percentage of permitted treatment capacity remaining above most recent production level	Indicates the pressures a utility may be facing to meet customer demands
Average Annual CIP Costs Per Customer (\$)	Total projected capital needs in the CIP divided by the number of years of the CIP, divided by total number of customers (for a combined utility, the aggregate number of water and sewer accounts are used)	Indicates effect of the CIP on ratepayers (principal only)
CIP Debt Financed (%)	Percentage of issuer's total CIP expected to be debt financed	Indicates future debt leverage of capital assets
Total Outstanding Debt to Net Plant Assets (%)	Total amount of utility long-term debt divided by the net asset value of the plant	Indicates existing debt leverage of capital assets
Debt to FADS (x) <sup>a</sup>	Total amount of utility long-term debt divided by the total funds available for debt service	Indicates existing debt leverage relative to existing funds available for debt service
Total Outstanding Long-Term Debt Per Customer (\$) <sup>a</sup>	Total amount of utility long-term debt divided by the total number of utility customers (for a combined utility, the aggregate number of water and sewer accounts are used)	Indicates the existing debt burden attributable to ratepayers (principal only)
Total Outstanding Long-Term Debt Per Capita (\$) <sup>a</sup>	Total amount of utility long-term debt divided by total population served by the utility	Indicates the existing debt burden of an utility attributable to each person served by the utility (principal only)
10-Year Principal Payout (%)	Percentage of principal amortizing within 10 years	Indicates longevity of system debt
20-Year Principal Payout (%)	Percentage of principal amortizing within 20 years	Indicates longevity of system debt
Projected Debt Per Customer — Year Five (\$) <sup>a</sup>	Total projected outstanding system debt (existing debt less scheduled amortization plus planned issuances) divided by total outstanding projected customers five years from the date of the rating (for a combined utility, the aggregate number of water and sewer accounts are used and are inflated by anticipated growth)	Indicates the total debt burden to ratepayers five years from the date of the rating (principal only)
Projected Debt Per Capita — Year Five (\$) <sup>a</sup>	Total projected outstanding system debt (existing debt less scheduled amortization plus planned issuances) divided by total projected population served by the utility (population is inflated based on anticipated growth)	Indicates the total debt burden of an utility to each person served by the utility five years from the date of the rating (principal only)
Individual Water/Sewer Utility Average Monthly Residential Bill (\$)	Average monthly residential bill for individual utilities; when billing was not calculated on a monthly basis, it was converted to a monthly amount for standardization	Indicates the monthly cost of service to residential customers
Individual Water/Sewer Utility Average Annual Bill as % of Median Household Income (MHI)	Average monthly residential bill for individual utilities times 12, divided by the most recent yearly MHI as reported by the U.S. Census Bureau	Indicates the annual burden for cost of service to ratepayers
Combined Water/Sewer Utility Average Monthly Residential Bill (\$)	Average monthly residential bill for combined utilities; when billing was not calculated on a monthly basis, it was converted to a monthly amount for standardization	Indicates the monthly cost of service to residential customers
Combined Water/Sewer Utility Average Annual Bill as % of MHI	Average monthly residential bill for combined utilities times 12, divided by the most recent yearly MHI as reported by the U.S. Census Bureau	Indicates the annual burden for cost of service to ratepayers
Average Annual Projected Water Rate Increases (%)	Sum of planned annual rate increases divided by the number of years over which increases are forecast	Indicates the future expected burden for cost of service to ratepayers

<sup>a</sup>Indicates key ratio.

**Appendix A: Water and Sewer Median Definitions (continued)**

Median	Definition	Significance
Average Annual Projected Sewer Rate Increases (%)	Sum of planned annual rate increases divided by the number of years over which increases are forecast	Indicates the future expected burden for cost of service to ratepayers
Three-Year Historical Average Senior Lien ADS Coverage (x) <sup>a</sup>	Most recent three-year historical average of annual revenues available for debt service divided by respective senior lien debt service for the year	Indicates the historical trend in senior lien ADS coverage
Senior Lien ADS Coverage (x) <sup>a</sup>	Current-year revenues available for debt service divided by current-year senior lien debt service	Indicates the financial margin to meet current senior lien ADS with current revenues available for debt service
Senior Lien ADS Coverage Excluding Connection Fees (x)	Current-year revenues available for debt service, excluding one-time revenues such as connection fees, divided by current-year senior lien debt service	Indicates the financial margin to meet current senior lien ADS with current revenues available for debt service, excluding one-time revenues such as connection fees
Minimum Projected Senior Lien ADS Coverage (x) <sup>a</sup>	Minimum debt service coverage projected, based on revenues available for debt service in any given fiscal year, divided by the respective senior lien debt service amount for that fiscal year	Indicates the financial margin during the year in which future senior lien ADS coverage is projected to be the lowest
Senior Lien MADS Coverage (x)	Current-year revenues available for debt service divided by projected senior lien MADS	Indicates the financial margin to meet projected senior lien MADS with current revenues available for debt service
Senior Lien Debt Service as % of Gross Revenues	Current-year senior lien debt service divided by current-year gross revenues	Indicates the level of annual senior lien debt service burden on system operations
Three-Year Historical Average All-In ADS Coverage (x) <sup>a</sup>	Most recent three-year historical average of annual revenues available for debt service divided by respective total debt service for the year	Indicates the historical trend in total ADS coverage
All-In ADS Coverage (x) <sup>a</sup>	Current-year revenues available for debt service divided by current-year total debt service	Indicates the financial margin to meet current total ADS with current revenues available for debt service
All-In ADS Coverage Excluding Connection Fees (x)	Current-year revenues available for debt service, excluding one-time revenues such as connection fees, divided by current-year total debt service	Indicates the financial margin to meet current total ADS with current revenues available for debt service, excluding one-time revenues such as connection fees
Minimum Projected All-In ADS Coverage (x) <sup>a</sup>	Minimum debt service coverage projected, based on revenues available for debt service in any given fiscal year, divided by the respective total debt service amount for that fiscal year	Indicates the financial margin during the year in which future total ADS coverage is projected to be the lowest
All-In MADS Coverage (x)	Current-year revenues available for debt service divided by projected total MADS	Indicates the financial margin to meet projected total MADS with current revenues available for debt service
All-In Debt Service as % of Gross Revenues	Current-year total debt service divided by current-year gross revenues	Indicates the level of annual total debt service burden on system operations
Operating Margin (%)	Operating revenues minus operating expenditures plus depreciation, divided by operating revenues	Indicates financial margin to pay operating expenses
Operating Cash Flow Ratio (x)	Cash flows from current operations divided by current liabilities	Indicates the strength of existing cash flows to meet near-term obligations
Operating Revenue Growth — Current Year (%) <sup>b</sup>	Most recent audited operating revenues divided by the immediately prior year operating revenues minus 1	Indicates revenue gains
Operating Revenue Growth — 3 Year Average (%) <sup>b</sup>	Average of operating revenues divided by the immediately prior year operating revenues minus 1 for the three most recent audited fiscal years	Indicates revenue gains
Operating Expenditure Growth — Current Year (%) <sup>b</sup>	Most recent audited operating expenses divided by the immediately prior year operating expenses minus 1	Indicates expenditure pressures
Operating Expenditure Growth — 3 Year Average (%) <sup>b</sup>	Average of operating expenses divided by the immediately prior year operating expenses minus 1 for the three most recent audited fiscal years	Indicates expenditure pressures
Days of Operating Revenues in Accounts Receivable	Current unrestricted accounts receivable divided by operating revenues, divided by 365	Indicates rate at which customer revenues are received
Days Cash on Hand <sup>a</sup>	Current unrestricted cash and investments plus any restricted cash and investments (if available for general system purposes), divided by operating expenditures minus depreciation, divided by 365	Indicates financial flexibility

<sup>a</sup>Indicates key ratio. <sup>b</sup>New with 2010 medians.



## Appendix A: Water and Sewer Median Definitions (continued)

Median	Definition	Significance
Days of Working Capital <sup>a</sup>	Current unrestricted assets plus any restricted cash and investments (if available for general system purposes), minus current liabilities payable from unrestricted assets, divided by operating expenditures minus depreciation, divided by 365	Indicates financial flexibility
Quick Ratio	Current cash plus current receivables divided by current liabilities	Indicates financial flexibility to pay near-term obligations
Current Ratio	Current assets divided by current liabilities	Indicates financial flexibility to pay near-term obligations
Free Cash as % of Depreciation <sup>a</sup>	Current surplus revenues after payment of operating expenses, debt service, and operating transfers out divided by current year depreciation	Indicates annual financial capacity to maintain facilities at current level of service from existing cash flows

<sup>a</sup>Indicates key ratio.

**Appendix B: Utilities Included in 2010 Water and Sewer Medians**

	Date of Senior Lien Rating	Long-Term Rating (Pre-Recalibration)	Rating Outlook
<b>Arkansas</b>			
Pine Bluff	4/17/09	A	Stable
<b>Arizona</b>			
Tucson	6/11/09	AA-	Stable
Yuma	7/9/09	A	Stable
<b>California</b>			
Belmont Joint Powers Authority	9/15/08	A	Stable
East Bay Municipal Utility District (Water)	3/12/09	AA	Stable
Eastern Municipal Water District	7/10/09	AA	Stable
El Paso de Robles	12/8/08	AA-	Stable
Elsinore Valley Municipal Water District	9/19/08	A+	Stable
Imperial Irrigation District	5/20/09	A+	Negative <sup>a</sup>
Indian Wells Valley Water District	8/6/09	A+	Stable
Long Beach	1/6/09	AA-	Stable
Los Angeles (Sewer)	1/21/09	AA	Stable
Los Angeles Department of Water and Power	1/15/09	AA	Stable
Lynwood	5/29/09	A-	Stable
Manteca	5/11/09	A+	Stable
Mesa Consolidated Water District	7/17/09	AA	Stable
Oakland	8/31/09	A	Stable
Orange County Sanitation District	3/13/09	AA	Positive
Oro Loma Sanitary District	8/18/09	AA	Stable
Padre Dam Municipal Water District	8/10/09	AA-	Stable
Palmdale Water District	5/20/09	A+	Negative <sup>a</sup>
San Diego (Sewer)	4/23/09	AA-	Stable
San Diego (Water)	6/3/09	AA-	Stable
San Juan Capistrano	3/3/09	AA-	Stable
San Juan Water District	6/4/09	AA	Stable
Stockton	7/29/09	A+	Stable
Vallecitos Water District	7/27/09	AA	Stable
Yuba City (Sewer)	9/2/08	A+	Stable
Yuba City (Water)	9/2/08	A+	Stable
<b>Colorado</b>			
Arvada	3/27/09	AA+	Stable
Denver (Sewer)	8/4/09	AA	Stable
Denver Board of Water Commissioners	5/15/09	AA+	Stable
Fort Collins	12/30/08	AA-	Stable
<b>District of Columbia</b>			
District of Columbia Water and Sewer Authority	1/6/09	AA-	Positive
<b>Delaware</b>			
Dover	1/13/09	A+	Stable
<b>Florida</b>			
Boca Raton	2/26/09	AAA	Stable
Broward County	1/28/09	AA	Stable
Cape Coral	7/9/09	A-	Negative
Citrus County	4/2/09	A-	Positive
Clearwater	5/15/09	A	Stable
Collier County Water-Sewer District	7/28/09	AA	Stable
Coral Springs	3/12/09	AAA	Stable
Florida Governmental Utility Authority (Lehigh Utility System)	6/5/09	A-	Negative
Hernando County	2/11/09	A+	Stable
Hillsborough County	1/22/09	AA	Stable
Hollywood	4/21/09	A-	Stable
Indian River County	7/15/09	AA+	Stable
Jupiter	1/29/09	AA+	Stable
Leesburg	3/9/09	A-	Stable
Martin County	12/4/08	A+	Stable
Miami-Dade County	11/12/08	A+	Stable
North Miami Beach	6/26/09	A+	Stable

<sup>a</sup>Rating Watch.

## Appendix B: Utilities Included in 2010 Water and Sewer Medians (continued)

	Date of Senior Lien Rating	Long-Term Rating (Pre-Recalibration)	Rating Outlook
<b>Palm Beach County</b>	6/24/09	AAA	Stable
<b>Palm Coast</b>	3/26/09	A	Stable
<b>Panama City Beach</b>	8/6/09	A+	Stable
<b>Pasco County</b>	9/10/08	AA-	Stable
<b>Pinellas County</b>	1/14/09	AA	Stable
<b>Pinellas Park</b>	8/10/09	AA-	Stable
<b>Polk County</b>	7/9/09	A+	Stable
<b>Port Orange</b>	6/19/09	A+	Stable
<b>Sanford</b>	3/24/09	A+	Stable
<b>Seacoast Utility Authority</b>	9/9/09	A+	Stable
<b>St. Augustine</b>	2/17/09	A	Stable
<b>St. Petersburg</b>	6/11/09	AA-	Stable
<b>Tamarac</b>	8/7/09	A+	Stable
<b>Wellington Village</b>	8/13/09	AA-	Stable
<b>Winter Park</b>	6/9/09	A+	Stable
<b>Georgia</b>			
<b>Athens-Clarke County Unified Government</b>	9/3/08	AA	Stable
<b>Cobb County</b>	7/24/09	AAA	Stable
<b>Hawaii</b>			
<b>Honolulu (Sewer)</b>	8/26/09	AA-	Stable
<b>Illinois</b>			
<b>Chicago (Water)</b>	2/17/09	AA+	Stable
<b>Chicago (Sewer)</b>	9/9/08	AA-	Positive
<b>Indiana</b>			
<b>Indianapolis Local Public Improvement Bond Bank</b>	7/14/09	A-	Negative
<b>Louisiana</b>			
<b>East Baton Rouge Sewerage Commission</b>	3/31/09	AA-	Stable
<b>Massachusetts</b>			
<b>Boston Water &amp; Sewer Commission</b>	2/27/09	AA	Stable
<b>Michigan</b>			
<b>Alpena</b>	7/9/09	A-	Stable
<b>Battle Creek</b>	12/4/08	A+	Stable
<b>Missouri</b>			
<b>Metropolitan St. Louis Sewer District</b>	10/8/08	AA+	Stable
<b>North Carolina</b>			
<b>Charlotte</b>	7/15/09	AAA	Stable
<b>Dare County</b>	7/20/09	A+	Stable
<b>Gastonia</b>	6/26/09	A+	Stable
<b>Greensboro</b>	3/25/09	AA+	Stable
<b>Salisbury</b>	6/23/09	A+	Stable
<b>Union County</b>	8/4/09	A+	Stable
<b>Winston-Salem</b>	2/4/09	AA	Stable
<b>New Jersey</b>			
<b>North Hudson Sewerage Authority</b>	2/19/09	A	Stable
<b>Passaic Valley Water Commission</b>	3/17/09	A-	Stable
<b>New Mexico</b>			
<b>Albuquerque Bernalillo County Water Utility Authority</b>	3/12/09	AA	Stable
<b>Rio Rancho</b>	5/8/09	A+	Stable
<b>New York</b>			
<b>New York City Municipal Water Finance Authority</b>	6/5/09	AA	Stable
<b>Ohio</b>			
<b>Toledo (Water)</b>	7/6/09	A+	Stable
<b>Toledo (Sewer)</b>	7/6/09	A+	Stable



**Appendix B: Utilities Included in 2010 Water and Sewer Medians (continued)**

	Date of Senior Lien Rating	Long-Term Rating (Pre-Recalibration)	Rating Outlook
<b>Pennsylvania</b>			
Lehigh County Authority	4/16/09	AA-	Stable
Philadelphia	4/9/09	A-	Stable
<b>South Carolina</b>			
Charleston Water System	4/28/09	AA	Stable
<b>Texas</b>			
Arlington	4/9/09	AA+	Stable
Cleburne	1/29/09	A+	Stable
Colleyville	10/16/08	AA+	Stable
Corpus Christi	3/2/09	A+	Stable
El Paso	10/1/08	AA	Stable
Garland	4/29/09	AA	Stable
Grand Prairie	10/30/08	AA	Stable
Lewisville	5/21/09	AA	Stable
Mansfield	11/3/08	AA-	Stable
Pearland	1/21/09	A+	Stable
San Angelo	10/1/08	AA-	Stable
San Antonio	1/13/09	AA	Stable
Victoria	9/24/08	A+	Stable
<b>Utah</b>			
Mountain Regional Special Services Water District	7/24/09	A	Stable
South Jordan	3/16/09	AA-	Stable
South Valley Sewer District	8/6/09	AA-	Stable
St. George	9/11/09	AA-	Stable
West Bountiful	11/13/08	A+	Stable
<b>Virginia</b>			
Chesterfield County	4/30/09	AAA	Stable
Fairfax County	5/22/09	AAA	Stable
Henrico County	2/9/09	AAA	Stable
Richmond	3/31/09	AA-	Stable
Spotsylvania County	8/11/09	A	Stable
Virginia Beach	8/13/09	AA+	Stable

**Appendix C: 2010 Regional Medians**

	Far West	Midwest	Northeast	Southeast	Southwest	All Credits
<b>Community Characteristics/Customer Growth and Concentration</b>						
Population	126,797	743,697	404,573	140,477	130,667	144,162
Median Household Income (\$)	55,240	39,201	47,581	46,252	43,748	47,179
Total Water Customers	22,915	136,000	124,543	38,242	34,528	37,264
Annual Growth (%)	3.2	0.6	1.0	1.6	2.1	1.7
Total Sewer Customers	46,000	272,926	325,811	34,092	31,951	40,306
Annual Growth (%)	1.4	(0.7)	1.0	1.9	1.4	1.5
Top 10 Customers as % of Revenues	6	14	11	6	5	7
<b>Capacity</b>						
Age of Plant (Years)	15	19	14	12	14	13
Water Treatment Capacity Remaining (%)	52	60	42	53	57	54
Sewer Treatment Capacity Remaining (%)	36	26	21	38	39	38
<b>Capital Demands and Debt Policies</b>						
Average Annual CIP Costs Per Customer (\$)	295	205	288	265	306	273
CIP Debt Financed (%)	41	66	66	44	68	60
Total Outstanding Debt to Net Plant Assets (%)	42	56	62	39	45	43
Debt to FADS (x) <sup>a</sup>	4.6	9.9	7.1	5.5	5.6	5.5
Total Outstanding Long-Term Debt Per Customer (\$) <sup>a</sup>	1,600	1,117	1,486	1,228	1,546	1,297
Total Outstanding Long-Term Debt Per Capita (\$) <sup>a</sup>	386	258	288	354	463	375
Ten-Year Principal Payout (%)	31	39	45	36	55	39
Twenty-Year Principal Payout (%)	72	83	94	73	98	80
Projected Debt Per Customer — Year Five (\$) <sup>a</sup>	1,908	1,616	1,860	1,754	1,912	1,774
Projected Debt Per Capita — Year Five (\$) <sup>a</sup>	485	407	463	411	593	446
<b>Charges and Rate Affordability</b>						
Individual Water/Sewer Utility Average Monthly Residential Bill (\$)	28	19	28	32	35	28
Individual Water/Sewer Utility Average Annual Bill as % of Median Household Income (MHI)	0.7	0.6	0.8	0.7	1.0	0.7
Combined Water/Sewer Utility Average Monthly Residential Bill (\$)	65	42	51	59	59	59
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.1	1.3	1.5	1.5	1.3	1.5
Average Annual Projected Water Rate Increases (%)	5.0	5.3	7.5	5.9	5.0	5.3
Average Annual Projected Sewer Rate Increases (%)	7.9	7.3	7.5	5.8	4.3	5.9
<b>Coverage and Financial Performance/Cash and Balance Sheet Considerations</b>						
Three-Year Historical Average Senior Lien ADS Coverage (x) <sup>a</sup>	3.3	3.0	1.8	2.9	2.4	2.9
Senior Lien ADS Coverage (x) <sup>a</sup>	3.1	2.8	1.9	2.6	2.3	2.6
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.6	2.8	1.9	2.5	2.1	2.4
Minimum Projected Senior Lien ADS Coverage (x) <sup>a</sup>	1.8	3.2	1.4	2.2	1.8	1.9
Senior Lien MADS Coverage (x)	2.6	2.4	1.3	2.6	1.7	2.4
Senior Lien Debt Service as % of Gross Revenues	15	12	20	17	20	16
Three-Year Historical Average All-In ADS Coverage (x) <sup>a</sup>	2.8	1.5	1.4	2.5	2.1	2.4
All-In ADS Coverage (x) <sup>a</sup>	2.9	1.5	1.4	2.3	1.9	2.2
All-In ADS Coverage Excluding Connection Fees (x)	2.0	1.4	1.4	1.9	1.6	1.9
Minimum Projected All-In ADS Coverage (x) <sup>a</sup>	1.6	1.4	1.2	1.7	1.5	1.6
All-In MADS Coverage (x)	2.4	1.5	0.9	2.5	1.6	2.0
All-In Debt Service as % of Gross Revenues	16	22	22	19	26	18
Operating Margin (%)	29	32	33	33	38	32
Operating Cash Flow Ratio (x)	1.1	0.8	0.9	0.9	1.2	1.0
Operating Revenue Growth – Current Year (%) <sup>b</sup>	6.6	10.2	3.9	3.0	3.1	4.5
Operating Revenue Growth – 3 Year Average (%) <sup>b</sup>	6.2	5.8	4.2	5.8	6.9	6.0
Operating Expenditure Growth – Current Year (%) <sup>b</sup>	6.8	6.6	6.3	6.5	5.8	6.2
Operating Expenditure Growth – 3 Year Average (%) <sup>b</sup>	10.8	6.4	6.6	6.8	6.7	7.7
Days of Operating Revenues in Accounts Receivable	46	78	68	50	41	48
Days Cash on Hand <sup>a</sup>	451	144	250	389	301	344
Days of Working Capital <sup>a</sup>	439	203	175	362	317	361
Quick Ratio	3.0	1.5	3.2	3.5	4.3	3.3
Current Ratio	5.2	2.1	3.3	3.8	4.7	3.8
Free Cash as % of Depreciation <sup>a</sup>	140	60	67	97	85	107

<sup>a</sup>Indicates key ratio. <sup>b</sup>New with 2010 medians.

**Appendix D: 2010 Medians Relative to System Size**

	System Size Classification			All
	Large	Medium	Small	Credits
Community Characteristics/Customer Growth and Concentration				
Population	1,174,727	169,070	52,404	144,162
Median Household Income (\$)	46,292	47,227	47,006	47,179
Total Water Customers	224,152	57,388	18,905	37,264
Annual Growth (%)	2.0	1.6	1.7	1.7
Total Sewer Customers	230,564	51,251	17,495	40,306
Annual Growth (%)	1.9	1.5	1.4	1.5
Top 10 Customers as % of Revenues	8	6	7	7
Capacity				
Age of Plant (Years)	14	13	13	13
Water Treatment Capacity Remaining (%)	53	54	54	54
Sewer Treatment Capacity Remaining (%)	33	42	39	38
Capital Demands and Debt Policies				
Average Annual CIP Costs Per Customer (\$)	321	272	266	273
CIP Debt Financed (%)	69	62	36	60
Total Outstanding Debt to Net Plant Assets (%)	51	40	38	43
Debt to FADS (x) <sup>a</sup>	7.6	4.8	4.3	5.5
Total Outstanding Long-Term Debt Per Customer (\$) <sup>a</sup>	1,546	1,166	1,346	1,297
Total Outstanding Long-Term Debt Per Capita (\$) <sup>a</sup>	403	309	379	375
Ten-Year Principal Payout (%)	35	41	46	39
Twenty-Year Principal Payout (%)	72	84	88	80
Projected Debt Per Customer — Year Five (\$) <sup>a</sup>	2,235	1,764	1,395	1,774
Projected Debt Per Capita — Year Five (\$) <sup>a</sup>	614	395	411	446
Charges and Rate Affordability				
Individual Water/Sewer Utility Average Monthly Residential Bill (\$)	28	32	27	28
Individual Water/Sewer Utility Average Annual Bill as % of Median Household Income (MHI)	0.7	0.9	0.6	0.7
Combined Water/Sewer Utility Average Monthly Residential Bill (\$)	51	61	59	59
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.3	1.5	1.6	1.5
Average Annual Projected Water Rate Increases (%)	6.8	6.1	4.4	5.3
Average Annual Projected Sewer Rate Increases (%)	8.0	5.8	4.6	5.9
Coverage and Financial Performance/Cash and Balance Sheet Considerations				
Three-Year Historical Average Senior Lien ADS Coverage (x) <sup>a</sup>	2.9	2.9	3.1	2.9
Senior Lien ADS Coverage (x) <sup>a</sup>	2.5	2.6	2.8	2.6
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.0	2.5	2.5	2.4
Minimum Projected Senior Lien ADS Coverage (x) <sup>a</sup>	2.1	1.9	1.9	1.9
Senior Lien MADS Coverage (x)	1.7	2.7	2.3	2.4
Senior Lien Debt Service as % of Gross Revenues	16	15	17	16
Three-Year Historical Average All-In ADS Coverage (x) <sup>a</sup>	2.0	2.6	2.5	2.4
All-In ADS Coverage (x) <sup>a</sup>	1.7	2.3	2.3	2.2
All-In ADS Coverage Excluding Connection Fees (x)	1.6	2.1	2.1	1.9
Minimum Projected All-In ADS Coverage (x) <sup>a</sup>	1.5	1.6	1.6	1.6
All-In MADS Coverage (x)	1.4	2.6	2.0	2.0
All-In Debt Service as % of Gross Revenues	24	18	18	18
Operating Margin (%)	31	32	37	32
Operating Cash Flow Ratio (x)	1.0	1.0	1.2	1.0
Operating Revenue Growth – Current Year (%) <sup>b</sup>	3.7	4.9	5.3	4.5
Operating Revenue Growth – 3 Year Average (%) <sup>b</sup>	5.0	6.1	6.5	6.0
Operating Expenditure Growth – Current Year (%) <sup>b</sup>	8.7	6.1	5.3	6.2
Operating Expenditure Growth – 3 Year Average (%) <sup>b</sup>	8.4	7.2	7.8	7.7
Days of Operating Revenues in Accounts Receivable	49	49	46	48
Days Cash on Hand <sup>a</sup>	301	463	323	344
Days of Working Capital <sup>a</sup>	228	451	359	361
Quick Ratio	1.9	4.6	3.2	3.3
Current Ratio	2.3	5.3	4.4	3.8
Free Cash as % of Depreciation <sup>a</sup>	81	116	116	107

<sup>a</sup>Indicates key ratio. <sup>b</sup>New with 2010 medians.

**Appendix E: Year-Over-Year Sectorwide Medians Comparison**

	2007	2008	2009	2010
<b>Community Characteristics/Customer Growth and Concentration</b>				
Population	119,037	234,103	162,338	144,162
Median Household Income (\$)	40,656	45,733	45,820	47,179
Total Water Customers	37,299	61,076	50,410	37,264
Annual Growth (%)	2.5	2.4	1.6	1.7
Total Sewer Customers	32,903	64,039	48,000	40,306
Annual Growth (%)	2.8	2.5	1.9	1.5
Top 10 Customers as % of Revenues	9	8	8	7
<b>Capacity</b>				
Age of Plant (Years)	13	13	12	13
Water Treatment Capacity Remaining (%)	53	50	50	54
Sewer Treatment Capacity Remaining (%)	32	35	35	38
<b>Capital Demands and Debt Policies</b>				
Average Annual CIP Costs Per Customer (\$)	266	348	356	273
CIP Debt Financed (%)	62	63	66	60
Total Outstanding Debt to Net Plant Assets (%)	40	39	39	43
Debt to FADS (x) <sup>a</sup>	—	—	4.9	5.5
Total Outstanding Long-Term Debt Per Customer (\$) <sup>a</sup>	1,012	1,185	1,454	1,297
Total Outstanding Long-Term Debt Per Capita (\$) <sup>a</sup>	—	—	379	375
Ten-Year Principal Payout (%)	40	30	40	39
Twenty-Year Principal Payout (%)	87	70	82	80
Projected Debt Per Customer — Year Five (\$) <sup>a</sup>	1,599	1,808	2,036	1,774
Projected Debt Per Capita — Year Five (\$) <sup>a</sup>	—	—	607	446
<b>Charges and Rate Affordability</b>				
Individual Water/Sewer Utility Average Monthly Residential Bill (\$)	23	29	28	28
Individual Water/Sewer Utility Average Annual Bill as % of Median Household Income (MHI)	0.6	0.7	0.8	0.7
Combined Water/Sewer Utility Average Monthly Residential Bill (\$)	47	56	56	59
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.4	1.4	1.3	1.5
Average Annual Projected Water Rate Increases (%)	4.1	4.4	4.9	5.3
Average Annual Projected Sewer Rate Increases (%)	5.0	5.1	5.9	5.9
<b>Coverage and Financial Performance/Cash and Balance Sheet Considerations</b>				
Three-Year Historical Average Senior Lien ADS Coverage (x) <sup>a</sup>	—	2.7	3.0	2.9
Senior Lien ADS Coverage (x) <sup>a</sup>	2.3	2.8	2.9	2.6
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.0	2.3	2.3	2.4
Minimum Projected Senior Lien ADS Coverage (x) <sup>a</sup>	1.8	1.9	1.9	1.9
Senior Lien MADS Coverage (x)	1.9	2.0	2.1	2.4
Senior Lien Debt Service as % of Gross Revenues	18	16	15	16
Three-Year Historical Average All-In ADS Coverage (x) <sup>a</sup>	—	—	2.1	2.4
All-In ADS Coverage (x) <sup>a</sup>	—	2.2	2.3	2.2
All-In ADS Coverage Excluding Connection Fees (x)	—	—	1.8	1.9
Minimum Projected All-In ADS Coverage (x) <sup>a</sup>	—	—	1.7	1.6
All-In MADS Coverage (x)	—	—	1.8	2.0
All-In Debt Service as % of Gross Revenues	—	20	21	18
Operating Margin (%)	34	36	33	32
Operating Cash Flow Ratio (x)	—	—	1.1	1.0
Operating Revenue Growth – Current Year (%) <sup>b</sup>	5.4	8.0	7.1	4.5
Operating Revenue Growth – 3 Year Average (%) <sup>b</sup>	—	—	6.5	6.0
Operating Expenditure Growth – Current Year (%) <sup>b</sup>	5.0	8.4	7.3	6.2
Operating Expenditure Growth – 3 Year Average (%) <sup>b</sup>	—	—	7.5	7.7
Days of Operating Revenues in Accounts Receivable	45	45	47	48
Days Cash on Hand <sup>a</sup>	266	313	331	344
Days of Working Capital <sup>a</sup>	279	316	345	361
Quick Ratio	—	—	2.9	3.3
Current Ratio	—	—	3.3	3.8
Free Cash as % of Depreciation <sup>a</sup>	—	—	122	107

<sup>a</sup>Indicates key ratio. <sup>b</sup>New with 2010 medians.

**Appendix F: 2010 Medians Relative to Rating Category**

	Rating Category			All Credits
	AAA	AA	A	
Community Characteristics/Customer Growth and Concentration				
Population	335,173	131,957	136,967	144,162
Median Household Income (\$)	59,496	46,295	41,947	47,179
Total Water Customers	102,932	33,464	30,861	37,264
Annual Growth (%)	1.4	1.9	1.7	1.7
Total Sewer Customers	101,225	33,069	19,116	40,306
Annual Growth (%)	1.6	1.5	3.6	1.5
Top 10 Customers as % of Revenues	5	7	6	7
Capacity				
Age of Plant (Years)	14	13	14	13
Water Treatment Capacity Remaining (%)	53	54	42	54
Sewer Treatment Capacity Remaining (%)	38	38	21	38
Capital Demands and Debt Policies				
Average Annual CIP Costs Per Customer (\$)	242	286	251	273
CIP Debt Financed (%)	52	60	60	60
Total Outstanding Debt to Net Plant Assets (%)	22	43	76	43
Debt to FADS (x) <sup>a</sup>	3.6	5.5	6.7	5.5
Total Outstanding Long-Term Debt Per Customer (\$) <sup>a</sup>	827	1,462	1,738	1,297
Total Outstanding Long-Term Debt Per Capita (\$) <sup>a</sup>	219	384	518	375
Ten-Year Principal Payout (%)	45	39	36	39
Twenty-Year Principal Payout (%)	86	78	80	80
Projected Debt Per Customer — Year Five (\$) <sup>a</sup>	1,260	1,861	2,641	1,774
Projected Debt Per Capita — Year Five (\$) <sup>a</sup>	443	446	606	446
Charges and Rate Affordability				
Individual Water/Sewer Utility Average Monthly Residential Bill (\$)	30	28	25	28
Individual Water/Sewer Utility Average Annual Bill as % of Median Household Income (MHI)	0.6	0.7	0.7	0.7
Combined Water/Sewer Utility Average Monthly Residential Bill (\$)	58	60	51	59
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.2	1.5	1.7	1.5
Average Annual Projected Water Rate Increases (%)	6.0	5.1	7.5	5.3
Average Annual Projected Sewer Rate Increases (%)	5.8	5.8	9.1	5.9
Coverage and Financial Performance/Cash and Balance Sheet Considerations				
Three-Year Historical Average Senior Lien ADS Coverage (x) <sup>a</sup>	3.2	2.8	2.2	2.9
Senior Lien ADS Coverage (x) <sup>a</sup>	2.9	2.5	1.9	2.6
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.7	2.3	1.5	2.4
Minimum Projected Senior Lien ADS Coverage (x) <sup>a</sup>	2.4	1.9	1.6	1.9
Senior Lien MADS Coverage (x)	2.8	2.3	2.9	2.4
Senior Lien Debt Service as % of Gross Revenues	13	16	21	16
Three-Year Historical Average All-In ADS Coverage (x) <sup>a</sup>	3.1	2.2	2.2	2.4
All-In ADS Coverage (x) <sup>a</sup>	2.7	2.1	1.6	2.2
All-In ADS Coverage Excluding Connection Fees (x)	2.4	1.9	1.4	1.9
Minimum Projected All-In ADS Coverage (x) <sup>a</sup>	1.9	1.5	1.2	1.6
All-In MADS Coverage (x)	2.6	1.9	2.5	2.0
All-In Debt Service as % of Gross Revenues	18	20	23	18
Operating Margin (%)	31	33	33	32
Operating Cash Flow Ratio (x)	1.2	1.0	0.6	1.0
Operating Revenue Growth – Current Year (%) <sup>b</sup>	2.9	4.4	9.1	4.5
Operating Revenue Growth – 3 Year Average (%) <sup>b</sup>	6.8	5.6	10.5	6.0
Operating Expenditure Growth – Current Year (%) <sup>b</sup>	6.9	6.0	10.3	6.2
Operating Expenditure Growth – 3 Year Average (%) <sup>b</sup>	6.9	7.6	10.2	7.7
Days of Operating Revenues in Accounts Receivable	60	46	67	48
Days Cash on Hand <sup>a</sup>	544	344	171	344
Days of Working Capital <sup>a</sup>	495	361	123	361
Quick Ratio	5.2	3.0	1.5	3.3
Current Ratio	5.5	3.8	2.6	3.8
Free Cash as % of Depreciation <sup>a</sup>	95	110	84	107

<sup>a</sup>Indicates key ratio. <sup>b</sup>New with 2010 medians.



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**Wastewater System Book Value Compare to Purchase Price  
\$MM**

**Estimated Net Book Value of Acquired Assets:**

1	Original cost less depreciation of Wastewater plant at 7/10/2009	700.3
2	Balance in unexpended bond construction funds at 7/10/2009	150.8
3	Proceeds from Wells Fargo line of credit	85.0
4	Estimated plant additions from 7/10/2009 through 3/31/2011 funded from revenues	9.1
5	Estimated book depreciation from 7/10/2009 through 3/31/2011	<u>(48.7)</u>
6	Estimated net book value of acquired assets at 3/31/2011	896.5

**Estimated purchase price of acquired assets:**

7	Principal amount of SRF debt outstanding at 3/31/2011	412.7
8	Principal amount of G.O. bonds outstanding at 3/31/2011	47.9
9	Principal amount of non-SRF revenue bonds outstanding at 3/31/2011	37.4
10	Principal amount of Wells Fargo Line of credit outstanding at 3/31/2011	85.0
11	Cash consideration for acquired assets	262.6
12	Purchase price adjustment for STEP and surety downgrade	<u>(5.9)</u>
13	Estimated purchase price of acquired assets at 3/31/2011	839.7
14	<b>Excess of Net Book Value Over Purchase Price of Acquired Assets</b>	<b>56.8</b>





**BEFORE THE  
INDIANA UTILITY REGULATORY COMMISSION**

**JOINT PETITION OF THE BOARD OF DIRECTORS FOR )  
UTILITIES OF THE DEPARTMENT OF PUBLIC )  
UTILITIES OF THE CITY OF INDIANAPOLIS, D/B/A )  
CITIZENS ENERGY GROUP, CWA AUTHORITY, INC., )  
THE CITY OF INDIANAPOLIS AND ITS DEPARTMENT )  
OF WATERWORKS AND ITS SANITARY DISTRICT FOR )  
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OPERATING AGREEMENT BETWEEN CITIZENS )  
ENERGY GROUP AND CWA AUTHORITY, INC.; (E) )  
APPROVAL OF DEPRECIATION RATES AND OTHER )  
ACCOUNTING MATTERS RELATED TO THE WATER )  
AND WASTEWATER ASSETS; AND (F) ANY OTHER )  
APPROVALS NEEDED IN CONNECTION THEREWITH )**

**CAUSE NO. 43936**

**VERIFIED REBUTTAL TESTIMONY  
OF  
LINDSAY C. LINDGREN**

**On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.**

**Petitioners' Exhibit LCL-R**

1 **INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Lindsay C. Lindgren. My business address is 2150 Dr. Martin Luther  
4 King Jr. Street, Indianapolis, Indiana, 46202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Board of Directors for Utilities of the Department of Public  
7 Utilities of the City of Indianapolis. The City of Indianapolis (the "City") is the  
8 successor trustee of a public charitable trust and, acting by and through the Board  
9 of Directors for Utilities doing business as "Citizens Energy Group" manages and  
10 controls a number of businesses. I serve as Vice President of Gas & Steam  
11 Operations for Citizens Energy Group.

12 **Q. ARE YOU THE SAME LINDSAY LINDGREN WHO PREVIOUSLY**  
13 **TESTIFIED IN THIS CAUSE?**

14 A. Yes. I previously testified on behalf of the Citizens Energy Group in connection  
15 with its proposed acquisition of certain water assets (the "Water System")  
16 pursuant to an Asset Purchase Agreement (the "Water APA") dated August 11,  
17 2010. The Water System is currently owned and operated by the City, acting by  
18 and through its Department of Waterworks ("DOW").

19 **Q. WHAT IS THE PURPOSE FOR YOUR REBUTTAL TESTIMONY IN**  
20 **THIS PROCEEDING?**

21 A. My rebuttal testimony responds to portions of the testimony of Scott A. Bell and  
22 the testimony of Harold L. Rees filed on behalf of the Indiana Office of Utility

1 Consumer Counselor ("OUCC") on January 14, 2011. Specifically, I will respond  
2 to the recommendation concerning water conservation and drought response  
3 planning expressed on page 38 of Mr. Bell's testimony, as well as issues  
4 concerning technical ability, capital improvements and automatic meter reading  
5 raised on pages 11 to 16 of Mr. Rees' testimony.

6 **WATER CONSERVATION AND DROUGHT RESPONSE PLANNING**

7 **Q. WHAT IS YOUR RESPONSE TO MR. BELL'S RECOMMENDATION**  
8 **CONCERNING WATER CONSERVATION AND DROUGHT RESPONSE**  
9 **PLANNING?**

10 A. As Mr. William Tracy stated in his direct testimony in this proceeding, Citizens  
11 Energy Group understands the value to Indianapolis and the surrounding  
12 community of a safe and reliable water supply and the role conservation planning  
13 can play in achieving that goal. Accordingly, Citizens Energy Group agrees with  
14 Mr. Bell's recommendation that it should develop a water conservation plan of its  
15 own using the 2009 Water Conservation Plan that DOW submitted to the  
16 Commission. Citizens Energy Group believes its water conservation, which  
17 would be coordinated with its comprehensive business planning process, can be  
18 prepared and presented for approval by the Commission within twelve months  
19 (12) months of when it commences operation of the Water System.

20 Citizens Energy Group also agrees with Mr. Bell that it should develop a  
21 drought response plan. However, because of the complexities associated with  
22 drought resource planning, and the need to coordinate with regulatory agencies,

1 including without limitation the Commission, OUCC, Indiana Department of  
2 Environmental Management and Indiana Department of Natural Resources, and  
3 other stakeholders within and outside of the territory served by the Water System,  
4 it will take more time to develop a well-thought out and carefully structured plan  
5 that acknowledges the supply and demand profiles. Citizens Energy Group  
6 believes its drought plan, which also will be coordinated with its comprehensive  
7 business planning process, can be prepared and presented for approval by the  
8 Commission within twenty-four (24) months of when it commences operation of  
9 the Water System.

10 **TECHNICAL ABILITY**

11 **Q. WHAT IS YOUR RESPONSE TO MR. REES' COMMENTS ON THE**  
12 **TECHNICAL ABILITY OF CITIZENS ENERGY GROUP?**

13 A. I agree with Mr. Rees and other OUCC witnesses that Citizens Energy Group will  
14 have the technical ability to operate the Water System satisfactorily after the  
15 transition. Citizens Energy Group is aware of the management and technical  
16 issues faced by the Water System (some of which are discussed in Mr. Rees'  
17 testimony) and has extensive utility operating and management experience and  
18 expertise that is transferrable to water utility operations and relevant to those  
19 issues, including experience in capital planning, construction, and project  
20 management.

1    **Q.    WILL CITIZENS ENERGY GROUP RELY SOLELY ON THE**  
2    **EXPERIENCE AND EXPERTISE OF ITS CURRENT EMPLOYEES TO**  
3    **MANAGE AND OPERATE THE WATER SYSTEM?**

4    A.    No. As discussed in Mr. Rees' testimony, Citizens Energy Group intends to  
5    augment its own workforce that will be involved with the management and  
6    operation of the Water System with knowledgeable and experienced personnel  
7    currently employed by DOW and Veolia Water Indianapolis, LLC ("Veolia").  
8    Further, Citizens Energy Group will hire individuals not currently employed by  
9    DOW or Veolia to the extent it finds it necessary for the proper operation of the  
10    Water System. This might be necessary, for example, if Citizens Energy Group is  
11    not able to hire a sufficient number of individuals certified to operate the Water  
12    System's treatment facilities. Of course, Citizens Energy Group also will  
13    continue to utilize third-party subject matter experts as needed. These outside  
14    experts can be particularly helpful assuring compliance with governmental  
15    regulation and value engineering capital improvement projects.

16   **Q.    WILL CITIZENS ENERGY GROUP PROVIDE ANY TRAINING**  
17   **OPPORTUNITIES FOR THE INDIVIDUALS IT HIRES TO MANAGE**  
18   **AND/OR OPERATE THE WATER SYSTEM?**

19   A.    Yes. Citizens Energy Group will monitor the performance of all employees  
20   involved in the operation of the Water System in order to assess their knowledge  
21   and competence in performing their job duties, especially in connection with any  
22   technology which they may use or for which they are responsible. Where the

1 monitoring reveals it would be necessary or otherwise worthwhile, Citizens  
2 Energy Group will provide organized training opportunities for its employees that  
3 go beyond what may be available on the job in order to improve and expand their  
4 knowledge and competencies. One area of particular importance will be in  
5 connection with safety and the handling of emergencies. Citizens Energy Group  
6 considers it important to have developed emergency plans and provide training  
7 for its employees on the proper implementation of those plans, which will be of  
8 crucial importance for the individuals responsible for operating treatment plant  
9 and other important Water System facilities.

10 **Q. OTHER THAN EMPLOYEES, WHAT ELSE WILL CITIZENS ENERGY**  
11 **GROUP OBTAIN FROM DOW AND VEOLIA IN CONNECTION WITH**  
12 **THE TRANSFER OF THE WATER SYSTEM?**

13 **A.** The transition planning that is currently underway will insure that Citizens Energy  
14 Group also secures from DOW and Veolia key equipment and support systems,  
15 including without limitation relevant technology, computer software, trade secrets  
16 and other intellectual property. If needed, Citizens Energy Group also can call  
17 upon Veolia to provide training and “know-how” in the procedures and  
18 techniques Veolia’s current employees utilize in operating the Water System.

19 **CAPITAL IMPROVEMENTS**

20 **Q. HOW WOULD YOU RESPOND TO MR. REES’ COMMENTS ON THE**  
21 **NEED FOR CAPITAL IMPROVEMENTS TO THE WATER SYSTEM?**

1 A. Citizens Energy Group agrees with Mr. Rees that DOW is not “keeping up” with  
2 needed capital improvements and that if the “logjam is not broken soon”  
3 production and performance may deteriorate. Citizens Energy Group expected  
4 the projects planned by DOW for 2010 would be implemented. The deferral of  
5 many of those projects, however, may impact future capital priorities and  
6 operational integrity planning.

7 **Q. WHAT DOES CITIZENS ENERGY GROUP PLAN TO DO TO ADDRESS**  
8 **THE SITUATION MR. REES DESCRIBES?**

9 A. Citizens Energy Group’s water operations team has conducted detailed review  
10 and analysis of the Water System and associated capital expense requirements  
11 during the due diligence phase of integration planning. This review was  
12 conducted with support of engineering consulting firm Malcolm Pirnie, with input  
13 from the DOW and Veolia. As a result of this review, Citizens Energy Group  
14 concluded that it agrees generally with the most current capital investment level  
15 that was submitted to the Commission by the DOW. However, due to changing  
16 conditions, system needs, and financial resources, Citizens Energy Group would  
17 propose to have a capital planning process that is administered by management  
18 based on annual requirements and process categories, as opposed to individual  
19 project requirements. This process would allow for both a long term system  
20 approach and real time dynamic resource allocation based on priority needs to  
21 enhance system integrity. While Citizens Energy Group agrees that the projects  
22 Mr. Rees mentioned are important, they need to be balanced with all system needs



1 in a structured system. The process Citizens Energy Group would utilize also will  
2 include budget administration and cost control considerations.

3 **AUTOMATIC METER READING**

4 **Q. WHAT IS YOUR RESPONSE TO MR. REES' COMMENTS**  
5 **CONCERNING AUTOMATIC METER READING ("AMR")?**

6 A. As Mr. Rees correctly notes in his testimony, Mr. Tracy testified that in  
7 recognition of the potential benefits of AMR, Citizens Energy Group will be  
8 reviewing adoption of AMR in the normal course of its business planning and, in  
9 regard to the Water System, will be monitoring the cost of manual reads versus an  
10 AMR system in order to determine whether adoption of an AMR system is  
11 economically justified. Citizens Energy Group certainly is willing to incorporate  
12 into its planning any evaluations of AMR that DOW has performed and  
13 understands that, if the Commission approves its acquisition of the Water System,  
14 it will be up to it to maintain any momentum that DOW has developed around this  
15 important issue.

16 **CONCLUSION**

17 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes.



**BEFORE THE  
INDIANA UTILITY REGULATORY COMMISSION**

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APPROVALS NEEDED IN CONNECTION THEREWITH )**

**CAUSE NO. 43936**

**VERIFIED REBUTTAL TESTIMONY  
OF  
JAMES O. DILLARD**

**On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.**

**Petitioners' Exhibit JOD-R**

**INTRODUCTION AND BACKGROUND**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is James O. Dillard. My business address is 2150 Dr. Martin Luther King Jr. Street, Indianapolis, Indiana.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis. The City of Indianapolis (the "City") is the successor trustee of a public charitable trust and, acting through the Board of Directors for Utilities doing business as "Citizens Energy Group", manages and controls a number of businesses. I hold the position of General Manager, Project Engineering, for Citizens Energy Group.

**Q. ARE YOU THE SAME JAMES O. DILLARD WHO PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

A. Yes. I previously testified on behalf of the Citizens Energy Group and CWA Authority, Inc. (the "Authority") in connection with the Authority's proposed acquisition of certain wastewater assets (the "Wastewater System") pursuant to an Asset Purchase Agreement (the "Wastewater APA") dated August 11, 2010. While a separate legal entity, the Authority is an instrumentality of Citizens Energy Group and will be operated and managed by Citizens Energy Group. The Wastewater System is currently owned and operated by the Sanitary District (the "District") of the City of Indianapolis, acting by and through the City's Board of Public Works ("DPW").

1    **Q.    WHAT IS THE PURPOSE FOR YOUR REBUTTAL TESTIMONY IN**  
2    **THIS PROCEEDING?**

3    A.    My rebuttal testimony addresses recommendations concerning the City's Septic  
4    Tank Elimination Program ("STEP") made in the testimony of Scott Bell filed on  
5    behalf of the Indiana Office of Utility Consumer Counselor ("OUCC") on January  
6    14, 2011. Specifically, I will respond to (i) Mr. Bell's recommendation expressed  
7    on page 27 of his testimony that the Commission should require Citizens Energy  
8    Group to make the same commitment as the City made in regard to the STEP  
9    projects; (ii) Mr. Bell's recommendation expressed on pages 28 and 39 of his  
10    testimony that the Commission should order the Authority to assume financial  
11    responsibility for completing all the STEP projects, in addition to those it agreed  
12    to complete in 2.04(d) of the Wastewater APA; (iii) Mr. Bell's recommendation  
13    expressed on page 29 of his testimony that the Commission should require  
14    Citizens Energy Group and the Authority to continue to offer the City's STEP  
15    Financial Assistance Plan; and (iv) Mr. Bell's recommendation also expressed on  
16    pages 29 and 39 of his testimony that the Commission should require Citizens  
17    Energy Group and the Authority to provide information about STEP projects on  
18    the Citizens Energy Group website.

19   **Q.    DOES YOUR REBUTTAL TESTIMONY RESPOND TO ANY OTHER**  
20   **PORTIONS OF THE OUCC'S TESTIMONY?**

21   A.    Yes. My rebuttal testimony also addresses the recommendation expressed on  
22   page 5 of the direct testimony of the OUCC's witness Roger A. Pettijohn that the

1 Commission deny the Authority a certificate of territorial authority ("CTA")  
2 authorizing it to provide service within a rural portion of Hamilton County until  
3 the Authority satisfies the requirements of I.C. 8-1-2-89 and 170 IAC 8.5-3-1.  
4 The area that the Authority is requesting a CTA to serve is shown in the upper  
5 right-hand corner of the map attached to my direct testimony as Petitioner's  
6 Exhibit JOD-1 (the "Hamilton Service Area"). The District currently provides  
7 service to approximately 81 customers located within the Hamilton Service Area.  
8 The Authority will assume the obligation to serve those customers upon the  
9 transfer to it of the District's assets pursuant to the Wastewater APA.

10 **SEPTIC TANK ELIMINATION PROGRAM**

11 **Q. WHAT IS YOUR RESPONSE TO MR. BELL'S SUGGESTION THAT**  
12 **THE COMMISSION SHOULD REQUIRE CITIZENS ENERGY GROUP**  
13 **TO MAKE THE SAME COMMITMENT AS THE CITY HAS MADE IN**  
14 **REGARD TO CONSTRUCTING STEP PROJECTS?**

15 A. Initially, I believe Mr. Bell is incorrect in suggesting that Citizens Energy Group  
16 should be required to make a commitment in connection with STEP projects. The  
17 Authority as the owner of the Wastewater System, not Citizens Energy Group,  
18 would be the proper party to make any commitments regarding STEP projects.  
19 More importantly, however, I believe Mr. Bell is mistaken in his apparent view  
20 that the City has a commitment to STEP that differs from the Authority's. The  
21 Authority has the same commitment to STEP as the City.

1    **Q.    PLEASE EXPLAIN HOW THE CITY'S AND THE AUTHORITY'S**  
2    **COMMITMENTS TO STEP ARE THE SAME.**

3    A.    At this time, the City has committed to perform a limited number of STEP  
4    projects as part of a supplemental environmental project under the Consent  
5    Decree entered by the United States District Court for the Southern District of  
6    Indiana (the "Court") on December 19, 2006 in the matter of *United States and*  
7    *State of Indiana v. City of Indianapolis*, Cause No. 1:06-CV-1456-DFH-VSS (the  
8    "Consent Decree"), as well other STEP projects that may be deemed necessary to  
9    meet the requirements of the Consent Decree. Aside from the commitment it has  
10   made to perform STEP projects in connection with the Consent Decree, the City  
11   committed itself to pursue STEP projects that will bring sanitary sewer service to  
12   approximately 7,000 homes between 2009 and 2015. Under the terms of the  
13   Wastewater APA, the Authority has committed itself to satisfy the City's  
14   obligations under the Consent Decree, including without limitation any related to  
15   STEP projects, and the above-described STEP projects that the City has  
16   committed to perform between 2009 and 2015. Accordingly, any commitment  
17   concerning STEP projects recognized by the Commission should be limited to  
18   only those that the Authority has agreed to assume under the Wastewater APA.

19   **Q.    DOES THE AUTHORITY INTEND TO UNDERTAKE STEP PROJECTS**  
20   **BEYOND THOSE IT IS OBLIGATED TO UNDERTAKE UNDER THE**  
21   **WASTEWATER APA?**

1 A. As I stated in my direct testimony, the Authority will consider completion of  
2 additional STEP projects beyond those it is obligated to perform under the  
3 Wastewater APA through a cost benefit analysis process that will encompass a  
4 variety of factors, including both the tangible and intangible costs associated with  
5 the STEP projects, their environmental impact, overall community benefit, and  
6 available funds. I would anticipate that in order to address these additional STEP  
7 projects in any appropriate way the Authority would utilize the work the City has  
8 already done in connection with assessing and prioritizing STEP projects,  
9 including without limitation the STEP Prioritization Criteria that is part of  
10 Appendix C to the Consent Decree's Long Term Control Plan and as it may be  
11 revised in the future. I believe the Authority's intention with regard to these  
12 additional STEP projects is comparable to the City's current approach to STEP  
13 projects evident in its June 2010 Septic Tank Elimination Program (STEP) Master  
14 Plan Update.

15 **Q. SHOULD THE COMMISSION ADOPT THE OUCC**  
16 **RECOMMENDATION THAT THE AUTHORITY BE ORDERED TO BE**  
17 **FINANCIALLY RESPONSIBLE FOR COMPLETING ALL THE STEP**  
18 **PROJECTS IN ADDITION TO THE STEP PROJECTS IT HAS**  
19 **ALREADY AGREED TO COMPLETE?**

20 A. I do not believe that it is necessary or appropriate for the Commission to order the  
21 Authority to complete all STEP projects at this time. It must be understood that  
22 the Authority's ability to be financially responsible for STEP projects beyond



1 those that it has committed to undertake under the Wastewater APA depends, in  
2 the first instance, on having rates and charges adequate to produce needed funding  
3 for them. The basis for any additional capital expenditures for future STEP  
4 projects should be addressed in future wastewater rate cases where all of the facts  
5 and circumstances can be explored.

6 **Q. HOW DO YOU RESPOND TO MR. BELL'S RECOMMENDATION**  
7 **THAT CITIZENS ENERGY GROUP AND THE AUTHORITY**  
8 **CONTINUE TO OFFER THE CITY'S STEP FINANCIAL ASSISTANCE**  
9 **PLAN?**

10 **A.** I do not see any necessary problem with the Commission adopting such a  
11 recommendation so long as it is understood that the Authority's ability to  
12 continue to offer that plan depends on it having rates and charges adequate to  
13 produce the funding needed to offer it.

14 **Q. DO YOU AGREE WITH MR. BELL THAT CITIZENS ENERGY GROUP**  
15 **AND THE AUTHORITY SHOULD PROVIDE INFORMATION ABOUT**  
16 **STEP PROJECTS ON THE CITIZENS ENERGY GROUP WEBSITE?**

17 **A.** Yes, I do.

18 **CERTIFICATE OF TERRITORIAL AUTHORITY**

19 **Q. DO YOU AGREE WITH MR. PETTIJOHN'S RECOMMENDATION**  
20 **THAT THE COMMISSION DENY THE AUTHORITY A CTA TO SERVE**  
21 **THE HAMILTON SERVICE AREA?**

1 A. No. In my opinion, the Authority has met all of the requirements of Indiana Code  
2 § 8-1-2-89 for the issuance of the requested CTA. I also disagree with Mr.  
3 Pettijohn's claim that none of the documents identified in 170 IAC 8.5-3-1 have  
4 been submitted and his suggestion that the Commission consider submission of all  
5 of those documents as a prerequisite to issuance of the requested CTA.

6 **Q. PLEASE DESCRIBE HOW THE AUTHORITY HAS COMPLIED WITH**  
7 **THE REQUIREMENTS FOR THE ISSUANCE OF A CTA TO SERVE**  
8 **THE HAMILTON COUNTY SERVICE AREA.**

9 A. Indiana Code § 8-1-2-89(e) requires a party seeking a CTA to show that: (i) it has  
10 the lawful power and authority to apply for the CTA and to provide the proposed  
11 sewage disposal service; (ii) it has the financial ability to install, commence, and  
12 maintain the proposed sewage disposal service; and (iii) public convenience and  
13 necessity require the rendering of the proposed sewage disposal service by this  
14 particular sewage disposal company. The Direct Testimony of Mr. Carey B.  
15 Lykins, including without limitation Petitioners' Exhibits CBL-4, CBL-5 and  
16 CBL-10 attached to it, establishes that the Authority has the "lawful power and  
17 authority" to apply for a CTA and provide sewage disposal service within the  
18 Hamilton County Service Area. Further, Mr. Lykins' testimony, as well as the  
19 Direct Testimony of John R. Brehm, demonstrates that the Citizens Energy  
20 Group, which will be operating and managing the Authority's wastewater  
21 disposal facilities, has the "financial ability" to provide sewage disposal service  
22 within the Hamilton Service Area on behalf of the Authority. Finally, there

1 should be no question that public convenience and necessity require that the  
2 Authority to continue to provide service to the customers within the Hamilton  
3 Service Area. Not only will the Authority be acquiring from the District the  
4 assets currently used to serve the Hamilton Service Area, but the Direct  
5 Testimony of William A. Tracy and other witnesses show that the Authority,  
6 through Citizens Energy Group, will possess the requisite technical and  
7 managerial ability to use those assets to provide adequate and reliable service.

8 **Q. PLEASE DESCRIBE HOW CITIZENS ENERGY GROUP WILL HAVE**  
9 **THE TECHNICAL AND MANAGERIAL ABILITY TO PROVIDE**  
10 **ADEQUATE AND RELIABLE SEWAGE DISPOSAL SERVICE.**

11 A. As explained in the direct and supplemental testimony of Mr. William A. Tracy,  
12 Citizens Energy Group's employees will have overall responsibility for managing  
13 and operating the Wastewater System and, as such, will provide oversight and  
14 management of the operations now contracted to United Water Services Indiana  
15 LLC ("United"), including operational, environmental, financial, engineering and  
16 construction and supply chain management. Citizens Energy Group will  
17 discharge those responsibilities with current employees, as well as with 34 current  
18 DPW employees, engaged in wastewater related activities, that it intends to offer  
19 employment to if the Authority's acquisition of the Wastewater System is  
20 approved. In addition, Citizens Energy Group will be taking assignment of a  
21 large number of consulting engineering contracts that utilize professional  
22 consulting engineers to assist in the planning, design, construction,

1 commissioning, and operation of the wastewater system. Further, United will  
2 continue to provide services to the Authority in the same manner as those services  
3 currently are provided to the City. An integration team has been established that  
4 is responsible for working through the issues of transition and integration of the  
5 wastewater operations and management of the relationship with United. Finally,  
6 Citizens Energy Group also will continue utilize the expertise of the existing  
7 Wastewater Technical Advisory Groups that have a strong understanding of the  
8 systems and the potential problems.

9 While the City's agreement with United provides for unilateral  
10 termination, Citizens Energy Group does not anticipate that there will be any  
11 termination of that agreement in the near future. In the event of termination,  
12 however, there will be a six-month transition period during which Citizens Energy  
13 Group will be able to hire United's employees in order to take advantage of their  
14 direct prior experience in operating and managing this Wastewater System.  
15 Further, Citizens Energy Group will have in place a transition plan to guide the  
16 transfer of United's operations to Citizens Energy Group. That transition plan  
17 will reflect the same features as the transition plan that has been developed to  
18 guide the transfer to Citizens Energy Group of the Water System operations now  
19 being performed by Veolia Water Indianapolis, LLC ("Veolia"). Designed for  
20 "day 1 readiness," the Veolia transition plan is broken into five primary phases: 1)  
21 planning; 2) analysis; 3) design; 4) implementation planning; and 5)  
22 implementation execution. Accordingly, even in the event the current agreement

1 with United terminates, Citizens Energy Group will have the managerial and  
2 technical ability to provide adequate and reliable service

3 **Q. PLEASE IDENTIFY THE DOCUMENTS MENTIONED IN 170 IAC 8.5-3-**  
4 **1 THAT ALREADY HAVE BEEN SUBMITTED TO THE COMMISSION.**

5 A. The Authority's Articles of Incorporation, which are identified in 170 IAC 8.5-3-  
6 1(1)(A), appear as Petitioner's CBL-5 and the Authority's proposed user rates and  
7 nonrecurring charges, which are identified in 170 IAC 8.5-3-1(1)(C), appear as  
8 Petitioners' Exhibits LSP-3, LSP-4 and LSP-5. Additionally, I believe the Direct  
9 Testimony of John R. Brehm and certain attached exhibits reflect the feasibility  
10 study and financial statements also identified in 170 IAC 8.5-3-1(1)(C).

11 **Q. WHY DO YOU BELIEVE THE COMMISSION SHOULD NOT**  
12 **CONSIDER SUBMISSION OF THE REMAINING DOCUMENTS**  
13 **IDENTIFIED IN 170 IAC 8.5-3-1 TO BE A PREREQUISITE TO**  
14 **ISSUANCE OF THE REQUESTED CTA?**

15 A. The first sentence of 170 IAC 8.5-3-1 makes clear that submission of the  
16 documents identified in 170 IAC 8.5-3-1 is only required "where appropriate."  
17 Here, the Authority is not seeking a CTA in order to provide sewage disposal  
18 service within an area that presently does not have such service. The Authority is  
19 only seeking a CTA in order to continue to provide service within the Hamilton  
20 Service Area after it acquires the assets currently used by the District to provide  
21 that service. Under these circumstances, it would be premature and potentially  
22 wasteful to require the Authority to submit all of the documents identified in 170

1 IAC 8.5-3-1 until it was assured that the District's assets actually would be  
2 transferred to it and the Authority would be providing service within that area.  
3 Similarly, the Authority will be in the best position to assure the accuracy of the  
4 documents only after it has obtained control of the District's assets and  
5 commenced to provide service within the Hamilton Service Area.

6 **Q. HOW CAN THE COMMISSION ASSURE ITSELF THE AUTHORITY**  
7 **WILL COMPLY WITH THE REQUIREMENTS OF 170 IAC 8.5-3-1**  
8 **AFTER IT COMMENCES TO PROVIDE SERVICE WITHIN THE**  
9 **HAMILTON SERVICE AREA?**

10 A. The Commission should condition the CTA granted the Authority on it submitting  
11 all documents identified in 170 IAC 8.5-3-1 that have not already been supplied,  
12 or showing that any of those documents are not available, within six months of  
13 commencing to provide service within the Hamilton Service Area. If the  
14 Authority fails to satisfy that condition and the Commission desires to revoke the  
15 CTA, the Authority should have an opportunity to demonstrate to the Commission  
16 in a noticed public hearing that revocation is not appropriate.

17 **CONCLUSION**

18 **Q. DOES THAT CONCLUDE YOUR PREPARED REBUTTAL**  
19 **TESTIMONY?**

20 A. Yes it does.



**BEFORE THE**

**INDIANA UTILITY REGULATORY COMMISSION**

**JOINT PETITION OF THE BOARD OF DIRECTORS FOR  
UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF  
THE CITY OF INDIANAPOLIS, D/B/A CITIZENS ENERGY  
GROUP, CWA AUTHORITY, INC., THE CITY OF  
INDIANAPOLIS AND ITS DEPARTMENT OF WATERWORKS  
AND ITS SANITARY DISTRICT FOR APPROVALS IN  
CONNECTION WITH THE PROPOSED TRANSFER OF  
CERTAIN WATER UTILITY ASSETS TO THE BOARD AND  
THE PROPOSED TRANSFER OF CERTAIN WASTEWATER  
UTILITY ASSETS TO THE AUTHORITY, INCLUDING: (A)  
APPROVAL OF INITIAL RATES AND RULES FOR WATER  
AND WASTEWATER SERVICE , AS WELL AS THE TERMS OF  
CERTAIN AGREEMENTS FOR WASTEWATER TREATMENT  
AND DISPOSAL SERVICE; (B) APPROVAL OF AN  
ENVIRONMENTAL COMPLIANCE PLAN UNDER IND. CODE  
8-1-28 AND AN ADJUSTMENT MECHANISM FOR  
WASTEWATER RATES TO PROVIDE TIMELY RECOVERY OF  
COSTS NECESSARY TO COMPLY IN WHOLE OR IN PART  
WITH THE SAFE DRINKING WATER ACT AND/OR CLEAN  
WATER ACT; (C) APPROVAL OF PROPOSED ALLOCATIONS  
OF CORPORATE SUPPORT SERVICES COSTS AMONG  
AFFECTED UTILITIES; (D) APPROVAL OF AN OPERATING  
AGREEMENT BETWEEN CITIZENS ENERGY GROUP AND  
CWA AUTHORITY, INC.; (E) APPROVAL OF DEPRECIATION  
RATES AND OTHER ACCOUNTING MATTERS RELATED TO  
THE WATER AND WASTEWATER ASSETS; AND (F) ANY  
OTHER APPROVALS NEEDED IN CONNECTION  
THEREWITH**

**CAUSE NO. 43936**

**VERIFIED REBUTTAL TESTIMONY  
OF  
LATONA S. PRENTICE**

**On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.**

**Petitioners' Exhibit LSP-R**



**BACKGROUND**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is LaTona S. Prentice. My business address is 2020 North Meridian Street, Indianapolis, Indiana.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis (the "Board"). The City of Indianapolis (the "City") is the successor trustee of a public charitable trust and, acting through the Board of Directors for Utilities doing business as "Citizens Energy Group," manages and controls a number of businesses, including the municipally-owned gas utility doing business as Citizens Gas and the municipally-owned steam utility doing business as Citizens Thermal. I hold the position of Executive Director of Regulatory Affairs.

**Q. ARE YOU THE SAME LATONA S. PRENTICE THAT PREVIOUSLY TESTIFIED IN THIS PROCEEDING ON BEHALF OF CITIZENS ENERGY GROUP AND CWA AUTHORITY, INC.?**

A. Yes, I am.

**Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE DIRECT TESTIMONY AND EXHIBITS FILED IN THIS PROCEEDING BY THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR ("OUCC") AND THE INDIANAPOLIS WATER/SEWER INDUSTRIAL GROUP ("INDUSTRIAL GROUP")?**

1 A. Yes, I have.

2 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
3 **PROCEEDING?**

4 A. The purpose of my rebuttal testimony is to provide evidence on behalf of Petitioners (the  
5 Board and CWA Authority, Inc.) in response to certain recommendations set forth in the  
6 prepared direct testimony of OUCC witnesses, Ms. Stull, Mr. Pettijohn, Mr. Rees, Mr.  
7 Patrick, and Mr. Kaufman.

8 **Q. PLEASE SUMMARIZE THE ITEMS FROM THE OUCC'S TESTIMONY YOU**  
9 **WILL ADDRESS IN YOUR REBUTTAL TESTIMONY.**

10 A. I will address the recommendations the OUCC made in testimony regarding Citizens  
11 Waterworks' Terms and Conditions and rate schedules, CWA Authority, Inc.'s (the  
12 "Authority") Terms and Conditions and rate schedules, updates to all of Citizens Energy  
13 Group's corporate support service contracts with affiliates, and the recommendation for  
14 the creation of a sub-docket.

15 **WATER RATE SCHEDULES AND TERMS AND CONDITIONS**

16 **Q. THE OUCC, ON PAGE 23 OF EXHIBIT NO. 5, IDENTIFIED TWO MINOR**  
17 **DISCREPANCIES IN THE PROPOSED CITIZENS WATERWORKS TARIFF**  
18 **AND RECOMMENDS THEY BE CORRECTED BEFORE THE TARIFF IS**  
19 **APPROVED. DO YOU AGREE?**

20 A. Yes, I agree there are two inconsistencies between the Citizens Waterworks rate  
21 schedules and those of the Department of Waterworks ("DOW"). As the OUCC stated,

1 the Swimming Pool Filling Service fee per thousand gallons in excess of 40,000 gallons  
2 is \$2.50 in Petitioners' Appendix A; whereas, it is reflected as \$2.81 in the DOW rate  
3 schedule. I agree, \$2.81 per thousand gallons is the current DOW charge for the water in  
4 excess of 40,000 gallons and is the rate that should be reflected in Petitioners' Exhibit  
5 LSP-2, Appendix A. The OUCC also correctly observes that the DOW's current tariff  
6 reflects a Delinquent Account Collection Charge of \$12.00 per visit; whereas, the fee  
7 reflected in Petitioners' Exhibit LSP-2, Appendix B is \$14.00. I agree, \$12.00 per visit  
8 should be reflected in Petitioners' Exhibit LSP-2, Appendix B.

9           However, as described on page 7 of my direct testimony in this Cause, the Asset  
10 Purchase Agreement provides that Citizens Waterworks will adopt the rates and charges  
11 approved in Cause No. 43645. Therefore, all of the rates and charges contained in  
12 Petitioners' Exhibit LSP-2 are subject to change and will be made consistent with the  
13 rates and charges approved in Cause No. 43645 before the rate schedules are made  
14 effective.

15 **Q. WHAT IS YOUR REACTION TO THE OUCC'S RECOMMENDATION THAT**  
16 **CERTAIN "CONNECTION CHARGES" CONTAINED ON WATER RATE NO. 2**  
17 **BE RELOCATED AND INCLUDED IN APPENDIX A?**

18 **A.** I agree it would be appropriate to relocate the two charges to Appendix A. The  
19 Connection Charges to establish a metered private fire protection service account and  
20 install a fire meter and to establish an unmetered private fire protection service account

1 and turn on the unmetered fire line are one-time fees resulting from a customer request  
2 for Private Fire Protection Service.

3 **Q. THE OUCC RECOMMENDS CITIZENS WATERWORKS MODIFY ITS BAD**  
4 **CHECK CHARGE TO REFLECT ONLY ONE RATE, RATHER THAN THE**  
5 **THREE SEPARATE RATES INCLUDED IN PETITIONERS' EXHIBIT LSP-2.**  
6 **DO YOU AGREE?**

7 A. Yes. Petitioners agree that the Bad Check Charge reflected in Petitioners' Exhibit LSP-2  
8 should reflect one charge of \$11.00, in place of the three separate charges currently  
9 reflected in Appendix B.

10 **Q. PLEASE ADDRESS THE COMMENTS MADE BY THE OUCC IN ITS EXHIBIT**  
11 **NO. 7 REGARDING THE PROPOSED WATER TERMS AND CONDITIONS.**

12 A. The OUCC makes comments regarding eight sections of Petitioners' proposed water  
13 utility Terms and Conditions. Of the eight comments, only one was a proposal to make a  
14 change. The remaining seven comments simply raised an issue without any proposal or  
15 recommendation regarding resolution of the issue. Given the lack of a proposal with  
16 respect to those seven comments, it is difficult to respond.

17 **Q. HAS CITIZENS DEVELOPED A RESPONSE TO THE ISSUES RAISED BY THE**  
18 **OUCC?**

19 A. To the extent possible, yes. Mr. Rees' first concern is the language in Section 1.1 of the  
20 water Terms and Conditions that provides "[a] customer shall not sell or give away water  
21 to anyone not specifically included in its agreement with the Utility for service." Mr.

1        Rees suggests the addition of some language “to limit the strict interpretation of this rule  
2        applying to practical situations such as allowing a neighbor to use my hose to wash off  
3        his driveway.” I agree with Mr. Rees in principal. It seems to me that the rule is  
4        designed to prevent customers from piping water to non-customers (through a pipe or  
5        hose) on a continuous basis. Such a customer would be allowing a third party to use the  
6        system without actually connecting to the system, thus avoiding the applicable charges  
7        for connecting to the utility’s system – and potentially would make the customer a utility.  
8        Therefore, I would propose inserting the phrase “on a continuous basis” after the word  
9        “away” and before the word “water.”

10        Mr. Rees then identifies several issues he has with the water utility’s deposit  
11        rules, including the manner in which an “appropriate deposit” is determined and under  
12        what conditions the deposit will be retained. Petitioners’ witness Strohl discusses the  
13        deposit rules in his rebuttal testimony.

14        Mr. Rees also raises a concern about Section 5.1, which provides that the  
15        customer will be responsible for maintaining at their expense the meter pit, meter pit  
16        cover, a hand cut-off valve, and other apparatus. Mr. Rees states the range of choices as  
17        to whether the Utility or customer is responsible for these costs seems to vary  
18        considerably among Indiana water utilities and asks “[i]s Indianapolis Water following  
19        any known standard for the State” and “[w]hy do these rules put the entire burden on the  
20        customer?” Citizens Energy Group is proposing to adopt the DOW’s Terms and  
21        Conditions in this proceeding. Upon operating the water system for a few years, if it

1 seems more practical for the Utility to pay these expenses and include them as part of its  
2 revenue requirements, Citizens Energy Group will propose to change the water Terms  
3 and Conditions for service at that time.

4 Mr. Rees notes that Rule 6.1 refers to meters put into usage before January 1,  
5 1955. Mr. Rees speculates that a 55-year old meter should not be in place. I do not  
6 disagree with Mr. Rees' premise. However, I again do not think the rule should be  
7 changed until Citizens Energy Group has had an opportunity to operate the system, and  
8 determine what types of meters are in place. Further, the existence of the provision for  
9 meters placed in service before January 1, 1955 will be of no consequence if there are no  
10 meters in service with a vintage earlier than 1955.

11 Mr. Rees finally notes that in the fourth paragraph of Petitioners' Exhibit LSP-1,  
12 section 12.15, the word "has" should be corrected to say "his." I agree this suggested  
13 correction should be made.

14 **WASTEWATER RATE SCHEDULES AND TERMS AND CONDITIONS**

15 **ENVIRONMENTAL COMPLIANCE PLAN RECOVERY MECHANISM:**

16 **Q. DOES THE OUCC GENERALLY AGREE THAT AN ENVIRONMENTAL**  
17 **COMPLIANCE PLAN RECOVERY MECHANISM IS APPROPRIATE FOR THE**  
18 **RECOVERY OF COSTS RELATED TO THE AUTHORITY'S**  
19 **ENVIRONMENTAL COMPLIANCE PLAN?**

20 **A.** Yes. The OUCC, in Public's Exhibit No. 2, pages 28 and 29, says "due to the  
21 Authority's truly unique circumstances, some extraordinary relief may be merited . . .

1       The annual debt service will be significant and beyond the Authority's control. Further,  
2       recovery of such annual debt service does not fit into Indiana's standard regulatory  
3       framework. Given these facts, some type of atypical rate relief may be merited and  
4       should benefit the ratepayers as well as the utility."

5       **Q. DOES THE OUCC AGREE WITH THE AUTHORITY'S ENVIRONMENTAL**  
6       **COMPLIANCE PLAN RECOVERY MECHANISM, AS PROPOSED?**

7       A. No. The OUCC takes issue with recovering the operating costs associated with the ECP  
8       through the Environmental Compliance Plan Recovery Mechanism ("ECPRM"),  
9       including a reconciliation mechanism, and the possibility of rate increases taking place  
10      more often than every twelve months.

11      **Q. WHY DOES THE OUCC TAKE ISSUE WITH RECOVERING OPERATING**  
12      **COSTS THROUGH THE ECPRM?**

13      A. The OUCC apparently has three issues regarding operating cost recovery through the  
14      ECPRM: (1) the level of increase in operating costs related to the Environmental  
15      Compliance Plan does not merit the need to track operating expenses (Public's Exhibit  
16      No. 2, page 30); (2) the annual operating and maintenance expenses are not different than  
17      those for any other utility, so they should be addressed during rate cases. (Public's  
18      Exhibit No. 4, page 36); and (3) absent statutory authority, the OUCC is unaware of any  
19      tracker-type mechanism previously approved by the Commission that allows for recovery  
20      of operating costs (Public's Exhibit No. 2, pages 29-30).

1   **Q.   DO YOU AGREE WITH THE STATEMENT THAT “ANNUAL OPERATING**  
2       **AND MAINTENANCE EXPENSES ARE NOT DIFFERENT THAN THOSE FOR**  
3       **ANY OTHER UTILITY”?**

4   **A.**   No. The operating expenses associated with implementing the CSO Control Measures  
5       will be significant. The Long Term Control Plan includes an estimate of the “System  
6       Wide Present Worth Operations and Maintenance Expenses” associated with the  
7       implementation of the CSO control measures. As Mr. Kiesel stated in his direct  
8       testimony, the estimated present worth of future operations and maintenance cost (in  
9       2004 dollars) is \$100.3 million. When stormwater and sewage is stored so that it is no  
10      longer overflowing to the City’s rivers and streams, it will have to be pumped to one of  
11      the two treatment plants and then treated. This, in turn, will result in significant spikes in  
12      electric and chemical costs, among other expenses. The problem will be particularly  
13      acute when the deep rock tunnel is placed in service. Citizens Energy Group believes it  
14      needs the ability to quickly recover through rates funds sufficient to address these  
15      significant jumps in operating costs in order to maintain the financial integrity of the  
16      system. The inherent regulatory lag associated with a rate case could be catastrophic for  
17      the Authority and its ability to recover those increased costs in a timely manner, and in  
18      any event, would need to be reflected in rates on a prospective basis. Under the  
19      Authority’s proposed ECPRM, the estimated operating and maintenance expenses  
20      associated with the ECP would be subject to reconciliation until such time as these  
21      expenses are rolled into base rates pursuant to a general rate case.



1 **Q. DO YOU BELIEVE INDIANA CODE § 8-1-28 CONTAINS “STATUTORY**  
2 **AUTHORITY” FOR THE RECOVERY OF OPERATING COSTS?**

3 A. Yes. Indiana Code § 8-1-28-11(a)(2) provides that “[i]f the commission issues an order  
4 approving an environmental compliance plan . . . [t]he public utility may recover the  
5 costs and expense incurred by the public utility in the development *and implementation*  
6 of the approved environmental compliance plan. . . .” The cost of implementing the  
7 proposed environmental compliance plan includes expenses associated with pumping and  
8 treating the captured stormwater and sewage, which otherwise would overflow into the  
9 City’s rivers and streams.

10 **Q. THE OUCC SEES THE RECONCILIATION MECHANISM AS AN ATTEMPT**  
11 **TO SHIFT THE RISKS OF THE COSTS RELATED TO THE**  
12 **ENVIRONMENTAL COMPLIANCE PLAN TO THE RATEPAYERS. DO YOU**  
13 **AGREE?**

14 A. No, quite the opposite. After the rate moratorium, the Authority will be in front of the  
15 Commission every year for the foreseeable future requesting a change in rates to cover the  
16 costs associated with compliance with the Environmental Compliance Plan – either  
17 through an ECPRM filing or a general rate case. The OUCC will have an opportunity to  
18 scrutinize those costs every year, rather than only when the Authority files a general rate  
19 case. The reconciliation mechanism is intended to protect both the customers and the  
20 Authority from the difference between estimated and actual costs, as well as estimated  
21 and actual sewage disposal service use. The OUCC believes it is “not prudent, given the

1 magnitude of the expenses and borrowings that will be necessary for CEG, through the  
2 Authority, to borrow" (Public's Exhibit No. 4, page 39) for a reconciliation to be passed  
3 through to ratepayers the second year after it is collected (which in the OUCC's example  
4 would be 2016, not 2017). That leads me to wonder why the OUCC would prefer to  
5 never pass through a reconciliation (including an over-recovery) to the ratepayers. In my  
6 opinion, given the magnitude of the expenses and borrowings involved with the ECPRM,  
7 it is only prudent to reconcile the estimates to actual. Even if the Commission were to  
8 allow the Authority to recover through the ECPRM only debt service related to the ECP,  
9 the projected sewage disposal service use, over which the costs will be recovered, will  
10 always be an estimate.

11 **Q. DO YOU AGREE WITH THE OUCC'S CHARACTERIZATION OF YOUR**  
12 **TESTIMONY DURING CROSS-EXAMINATION THAT THE PROCESS OF**  
13 **RECONCILIATION IS COMPLEX?**

14 A. No. The OUCC misconstrues what I said during cross-examination. The comment the  
15 OUCC is referring to is my statement that "this is going to get really complicated." That  
16 statement referred to explaining orally, without exhibits, the events that would be covered  
17 in each year of subsequent ECPRM filings – not the reconciliation process itself.  
18 Petitioners' Exhibit LSP, pages 18 through 26 describes the proposed ECPRM in detail.  
19 Pages 24 and 25 specifically describe the reconciliation component of the ECPRM.  
20 Petitioners' Exhibit LSP-6 contains workpapers that illustrate the mechanics of the  
21 ECPRM, including the reconciliation component. There is nothing "complex" or

1 “complicated” about the reconciliation at all. In fact, it is the same reconciliation process  
2 Citizens Gas uses in its Rider C – Customer Benefit Distribution tariff and in its newer  
3 Rider E – Energy Efficiency Adjustment tariff. The reconciliation process utilized in  
4 Citizens Gas’ Customer Benefit Distribution tariff and its predecessor tariff has been in  
5 place for approximately 30 years, without issue.

6 **Q. IN YOUR OPINION, DID THE ORDER THE OUCC CITES IN CAUSE NO.**  
7 **43680 DENY THE USE OF RECONCILIATION MECHANISMS IN GENERAL?**

8 A. No. In my opinion, it appears as if the Commission was weighing the evidence presented  
9 in Cause No. 43680, and based upon the evidence presented in that case denied Indiana-  
10 American Water Company’s proposed Pension/OPEB balancing account. The excerpt  
11 provided from the Order in Public’s Exhibit No. 4 is silent as to the use of reconciliation  
12 mechanisms in general. The Commission’s decision regarding Petitioners’ proposed  
13 ECPRM, including its reconciliation mechanism, must be based upon the evidence  
14 presented in this case.

15 **Q. DO YOU AGREE WITH THE OUCC’S OBSERVATION THAT IT WOULD BE**  
16 **APPROPRIATE TO ESTABLISH A PROCEDURAL PLAN FOR THE ECPRM**  
17 **REGULATORY PROCESS?**

18 A. Yes. The Authority would welcome the opportunity to collaborate with the OUCC,  
19 Commission staff, if appropriate, and any other interested parties to work through the  
20 logistics of the procedural schedule for an ECPRM, and to define what sort of filing  
21 requirements might be appropriate.

1   **Q.   THE OUCC WISHES TO DETERMINE A PRECISE ECPRM PROCESS AS A**  
2       **PART OF THIS CASE, OR IN THE ALTERNATIVE, IN A SUB-DOCKET TO**  
3       **THIS CASE. DO YOU AGREE?**

4   **A.**   Although I agree a process should be in place prior to the first ECPRM filing in 2013, I  
5       would rather not slow down the regulatory progress of this case to define a precise  
6       ECPRM process that would be used for the first time two-years from now. The timing  
7       and importance of this case is much too critical for that. In addition, the Commission's  
8       decision regarding what should be included for recovery in the ECPRM could have an  
9       impact on the logistics of an ECPRM filing. I am confident the parties will be able to  
10      work through and agree upon an appropriate process well in advance of 2013 without the  
11      necessity of creating a sub-docket, as well.

12   **Q.   WHAT IS YOUR REACTION TO THE SUGGESTED PROCESS FOR THE**  
13       **ECPRM THE OUCC HAS SET FORTH?**

14   **A.**   In my opinion, the OUCC's suggested process is a good place to begin the conversation.  
15       I don't necessarily agree with all of the OUCC's suggestions, but I also believe it would  
16       be helpful for all involved to know the Commission's decision regarding the ECPRM  
17       before finalizing an appropriate ECPRM process.

18   **CONNECTION FEES:**

19   **Q.   OUCC WITNESS STULL SUGGESTS THAT THE \$18.4 MILLION OF**  
20       **CONNECTION FEES COLLECTED BY THE SANITARY DISTRICT SINCE**  
21       **2005 SHOULD RETROACTIVELY BE CONSIDERED TO CONSTITUTE**

**CONTRIBUTIONS IN AID OF CONSTRUCTION. DO YOU AGREE WITH MS.  
STULL'S ASSESSMENT?**

A. No. I realize Ms. Stull maintains those fees reflect system development charges. However, it is not clear for what costs the connection fees are being used to compensate the Sanitary District. OUCC witness Pettijohn notes the Authority's rate schedules (which mirror the Sanitary District's rate schedules) do not contain a tap fee or an inspection fee. Citizens Energy Group believes that, at a minimum, some portion of the connection fee is designed to recover the costs for those services. However, how much of the connection fee relates to bona fide costs such those that would be covered by tap-in fees, building sewer permit inspection fees, plan review fees, and administrative fees, etc., remains unclear.

As further discussed by Petitioners' witness Brehm, what is clear is that the connection fees charged by the Sanitary District have been recorded as revenue since they were implemented and have constituted an integral part of the past and current rate structure. Accordingly, the pro-forma revenues used to develop the need for the Sanitary District's 10.75% rate increase through 2013 include connection fees. Excluding connection fees from revenue on a going-forward basis would require that the other rates and charges for sewer service increase by more than 10.75% annually.

**Q. WHAT DOES CITIZENS ENERGY GROUP PROPOSE WITH RESPECT TO  
THE CONNECTION FEE?**

1 A. Citizens Energy Group proposes that the most appropriate time to determine the correct  
2 characterization and accounting treatment of connection fees is the Authority's first  
3 general rate case. This will enable the Authority to gather enough data to determine the  
4 underlying costs these fees are meant to offset. In its next general rate case, Citizens  
5 Energy Group would propose tap fees and inspection fees as proposed by Mr. Pettijohn  
6 and potentially a true system development charge.

7 **Q. HOW DO YOU RESPOND TO MS. STULL'S RECOMMENDATION THAT THE**  
8 **COMMISSION REJECT THE PORTION OF APPENDIX B THAT CALLS FOR**  
9 **AN ANNUAL ESCALATION OF THE CONNECTION FEE?**

10 A. Again, I believe this issue is best addressed in the Authority's first general rate case. In  
11 the Asset Purchase Agreement, the Authority agreed that it would apply the City's  
12 existing rates until 2014. The escalation of the connection fee is a component of those  
13 rates.

14 **RECONNECTION CHARGE:**

15 **Q. PLEASE LIST THE CONCERNS THE OUCC HAS WITH THE AUTHORITY'S**  
16 **PROPOSED RECONNECTION CHARGE.**

17 A. On page 37 of Public's Exhibit No. 5, the OUCC identified its concerns with the  
18 Authority's proposed Reconnection Charge as follows: the amount of the fee; the  
19 services this fee represents are actually performed by the water utility; and customers  
20 may be assessed a reconnection charge from both the water and the wastewater utilities  
21 for essentially the same service.

1   **Q.   HOW DO YOU RESPOND TO THE OUCC'S CONCERN THAT THE SERVICES**  
2       **THE AUTHORITY'S PROPOSED RECONNECTION CHARGE REPRESENTS**  
3       **ARE ACTUALLY PERFORMED BY THE WATER UTILITY?**

4   **A.**   The OUCC is correct when it states the wastewater utility "typically relies on  
5       disconnection of water service to accomplish disconnection of wastewater service," as  
6       long as that service is to a customer who receives both water and wastewater service.  
7       Today, and under the Authority's ownership, if a customer receives both water and  
8       wastewater service, the customer's water service would be disconnected for non-payment  
9       of the wastewater bill. Typically, as a result of the payment application process, the  
10      customer would be delinquent on both water and wastewater service anyway. The  
11      provision for addressing delinquent payments to the DPW is found in Ordinance Sec.  
12      671-113(a). In the event a DPW customer does not receive water service, it is my  
13      understanding that the customer is not disconnected, but continues to be assessed  
14      additional late payment charges for as long as the bill is delinquent. Eventually, the  
15      unpaid charges become part of the City's lien process and are collected through a  
16      property tax assessment.

17           Currently, the City's ordinances ("Ordinances") do not address reconnection or  
18      reconnection charges, and the City's remedy for non-payment by a "sewer only"  
19      customer will not be available to the Authority. The Authority must have some means by  
20      which to protect itself and terminate service to a customer in default of its payments. The  
21      Commission's sewage disposal service rules at 170 IAC 8.5-2-4 provide for the

1 disconnection and reconnection of a customer's service, so the Commission clearly  
2 contemplates the disconnection and reconnection of a sewage disposal service customer.  
3 Section 12 of the Authority's proposed Terms and Conditions addressing reconnections is  
4 consistent with IAC 8.5-2-4(f). It is not the Authority's desire to ever have to resort to  
5 literally disconnecting a "sewer only" customer, but we must maintain the right and have  
6 the rules in place to do so in the event it would become necessary in order to protect the  
7 financial well-being of the utility.

8 **Q. WHAT IS YOUR REACTION TO THE OUCC'S CONCERN WITH THE**  
9 **AMOUNT OF THE CHARGE?**

10 A. The OUCC seems to have conflicting concerns. The OUCC compares the Authority's  
11 proposed reconnection charge of \$44 to Citizens Waterworks' proposed reconnection  
12 charge of \$25, and remarks that it is "nearly twice as much as the water utility for this  
13 service." Presumably, this is meant to question why the Authority's reconnection charge  
14 is so much larger than the water utility's, but then on page 7 of Public's Exhibit No. 6,  
15 the OUCC states "the utility cannot excavate and insert a plug for \$44.00 on a cost-  
16 neutral basis."

17 First, I will observe that the reconnection charge for the water utility potentially  
18 can be greater than \$25. Pursuant to Citizens Waterworks' proposed Appendix B – Non-  
19 Recurring Charges, a customer would be assessed \$25 per reconnection, **in addition to**  
20 **the cost of excavation.** If it ever became necessary to disconnect a wastewater customer,  
21 it certainly would entail more than turning a shut-off valve, which is contemplated in the



1 water utility's reconnection charge. Because the Ordinances do not provide for a  
2 reconnection charge, the Authority has proposed the use of Citizens Gas' reconnection  
3 charge, which is \$44 and reimbursement for any labor, material and associated restoration  
4 costs involved in disconnecting and reconnecting service. Once the Authority has had the  
5 opportunity to operate the utility and determine the actual cost of disconnecting and  
6 reconnecting a customer's service, we will propose an updated reconnection charge.

7 **Q. IS IT TRUE CUSTOMERS WOULD BE ASSESSED A RECONNECTION**  
8 **CHARGE FROM BOTH THE WATER AND THE WASTEWATER UTILITIES?**

9 A. No. As is the case today, a customer who receives both water and wastewater service and  
10 is disconnected is assessed the water utility's reconnection charge upon reconnection.  
11 There are wastewater customers who do not receive water service, and consistent with  
12 my testimony regarding collection charges, the Authority's reconnection charge would  
13 apply only if the customer is a wastewater customer who is not a water customer.

14 **Q. DO YOU AGREE WITH THE OUCC'S RECOMMENDATION THAT THE**  
15 **WASTEWATER RECONNECTION CHARGE BE ELIMINATED PRIOR TO**  
16 **APPROVAL OF THE WASTEWATER TARIFF?**

17 A. No. The OUCC's presumption that the water and wastewater utilities "will be managed  
18 jointly with only one reconnection fee per customer necessary" is inaccurate. As I have  
19 described, there are instances when no other option exists but to disconnect a customer's  
20 wastewater service. It is a step the Authority would not desire to take, but unfortunately,  
21 financial responsibility could eventually dictate the necessity of disconnection.

1   **Q.   DO YOU AGREE WITH THE OUCC'S RECOMMENDATION THAT THE**  
2       **WATER RECONNECTION CHARGE BE REVIEWED AND REVISED AS**  
3       **NECESSARY TO RECOVER ONLY THE ACTUAL COSTS OF THIS**  
4       **ACTIVITY?**

5   **A.**   The OUCC's witness makes this recommendation in Public's Exhibit No. 5, page 38, in  
6       the context of the cost of reconnecting a water service and a wastewater service and the  
7       belief "these fees should reflect the utility's current costs to provide these service so that  
8       the customers that cause the expense pay for it." (Public's Exhibit No. 5, page 37, lines  
9       15 – 17) There is a very distinct difference in the cost of reconnecting a water customer  
10      and the cost of reconnecting a sewer customer. One of the OUCC's witnesses even  
11      describes the actions necessary for reconnecting a water customer and a wastewater  
12      customer. A utility providing both water and wastewater services may simply shut off  
13      the water; whereas, a sewer-only utility would be more likely to excavate and insert a  
14      plug. Excavating and inserting a plug would entail more than shutting off a water  
15      service, thus it could be more costly than the \$25 water reconnection charge, plus the cost  
16      of excavation. At this time, Citizens Energy Group is simply adopting the rates and  
17      charges of the DOW and has no basis upon which to conclude a \$25 water reconnection  
18      charge, plus the cost of excavation is not reflective of the cost of reconnecting a water  
19      service. Currently, the DPW relies upon property tax assessments as its remedy for  
20      collecting delinquent wastewater charges; therefore, it does not have a reconnection  
21      charge. The Authority requires a reconnection charge as a part of its remedy to collect

1 delinquent wastewater charges. In recognition of the additional effort and cost of  
2 disconnecting and reconnecting a wastewater customer, the Authority has proposed a  
3 higher charge than that assessed by the water utility, one that is assessed for reconnecting  
4 a gas service by Citizens Gas. Once the Authority has had the opportunity to operate  
5 both utilities and determine the actual cost of disconnecting and reconnecting a  
6 customer's water service and a customer's wastewater service, we will propose updated  
7 reconnection charges.

8 **INDUSTRIAL CUSTOMER LATE REPORTING CHARGE:**

9 **Q. WHAT RECOMMENDATIONS DOES THE OUCC MAKE WITH RESPECT TO**  
10 **THE INDUSTRIAL CUSTOMER LATE REPORTING CHARGE?**

11 A. The OUCC recommends the Industrial Customer Late Reporting Charge be removed  
12 from the tariff because it appears to be punitive, and that the reference to Section 7 on  
13 Appendix A should be to Section 8.3.2.

14 **Q. DO YOU AGREE WITH THE OUCC'S RECOMMENDATION THAT THE**  
15 **INDUSTRIAL CUSTOMER LATE REPORTING CHARGE BE REMOVED**  
16 **FROM THE TARIFF AND REPLACED WITH A COST-BASED FEE?**

17 A. No. First, let me describe the purpose of the charge. It is my understanding, DPW has  
18 approximately 300 industrial customers who are subject to excessive strength charges.  
19 Most of those customers have facilities to allow inspection sampling and flow  
20 measurement and/or sampling or metering equipment to determine what to charge  
21 industrial customers for usage and excessive strength surcharges. However,

1 approximately 50 of those customers do not have metering and measurement and  
2 sampling equipment, and DPW relies on them to self-report. These reports are due to  
3 DPW by the twenty-fifth day of the following month. The reports are subject to  
4 verification by DPW but may serve as the basis for billing with all necessary adjustments  
5 made after verification. In the event an analysis and volume of the industrial waste are  
6 not furnished to DPW by the twenty-fifth of the month, the charges are based upon  
7 estimates made by DPW and trued-up at a later date when the data is reported to DPW.  
8 The self-reporting customer is granted two late reports per year at no charge. All late  
9 reports received in excess of two per year are assessed the \$100 late reporting charge.

10 The late reporting charge is not intended to be a cost-based charge, rather it  
11 should be viewed as a "behavior modification technique." The intent of the charge is not  
12 to generate excess revenues, rather it is intended to provide an incentive (through cost  
13 avoidance) to the customer to provide the necessary information in a timely manner. The  
14 Authority would like to never have to assess this charge, but it needs to be available to us  
15 in case it becomes necessary. Moreover, the reports are required of industrial  
16 pretreatment program customers and late reporting could adversely affect the utility's  
17 obligations with respect to overseeing the pretreatment program. Simply put, the  
18 consequences of late reporting are severe and go far beyond the simple cost of truing-up  
19 data. In my opinion, an industrial customer late reporting charge of \$100 is reasonable  
20 and appropriate and should remain in the tariff as is.

21 **MISCELLANEOUS TERMS AND CONDITIONS:**

1   **Q.   DO YOU AGREE WITH THE OUCC'S RECOMMENDATION THAT THE**  
2       **REFERENCE TO SECTION 7 ON APPENDIX A SHOULD BE A REFERENCE**  
3       **TO SECTION 8.3.2?**

4   A.   I agree the reference should not be to Section 7. However, I believe it would be more  
5       appropriate to reference Section 8.3 of the Terms and Conditions.

6   **Q.   PLEASE ADDRESS THE OUCC'S OBSERVATION REGARDING**  
7       **PETITIONERS' EXHIBIT LSP-3, PAGE NO. 3.**

8   A.   In Public's Exhibit No. 6, page 6, the OUCC observes that Petitioners' Exhibit LSP-3,  
9       Page No. 3 states that the rules set forth in the proposed Terms and Conditions have been  
10      filed with and approved by the Commission. The OUCC believes this to not be accurate  
11      because "the request for approval of the terms and conditions are being presented in this  
12      Cause for Commission approval." The Authority's proposed Terms and Conditions were  
13      prepared with the understanding that they would not become effective until after they  
14      have been filed with and approved by the Commission in this proceeding. The Terms  
15      and Conditions for Service attached to testimony essentially are a "mock up" of what the  
16      approved terms and conditions will look like. Therefore, when the Terms and Conditions  
17      become effective, the phrase in question will in fact be accurate.

18   **Q.   PLEASE ADDRESS THE OUCC'S OBSERVATION REGARDING SYSTEM**  
19       **PLANS AND SPECIFICATIONS.**

20   A.   Although the OUCC does not make a recommendation per se regarding standards of  
21       construction illustrations and material specifications, the testimony might cause the

1 reader to mistakenly conclude that the Authority will not have standard specifications for  
2 contractors to follow. Currently, DPW has a separate 185-page Sanitary Standards  
3 Manual which will be adapted for and adopted by the Authority. Petitioners' Exhibit  
4 LSP-3, section 4.6 specifies that all sewer work must be in accordance with the rules and  
5 regulations of the Indiana Fire Prevention and Building Safety Commission and standard  
6 specifications of the Utility. The Sanitary Standards Manual is organized to present  
7 procedures and criteria needed for the design and construction of laterals and sanitary  
8 sewer facilities. The Manual provides the construction standards for laterals and sanitary  
9 sewer facilities constructed within the utility's territory, and it includes submittal  
10 requirements and procedures for the issuance of approvals and permits, and the  
11 requirements and procedures for inspection, testing, and final acceptance of sanitary  
12 sewer facilities. The Manual contains technical specifications which typically would not  
13 be under the jurisdiction of the Commission. Therefore, in my opinion, it would not be  
14 advisable or desirable to burden the Authority's Terms and Conditions with an additional  
15 185 pages.

**SUB-DOCKET RECOMMENDATION**

17 **Q. DO YOU AGREE WITH THE OUCC'S RECOMMENDATION THAT THE**  
18 **WATER AND WASTEWATER TERMS AND CONDITIONS BE DEFERRED TO**  
19 **A SUB-DOCKET?**

20 **A.** No. First, I want to be clear that it would be necessary for Citizens Waterworks and the  
21 Authority to have in place a set of Terms and Conditions specific to each utility at close,

1 assuming the asset transfer is approved. DPW does not have an existing set of Terms and  
2 Conditions, rather it relies upon a series of City Ordinances for its rules and regulations.  
3 The City Ordinances can not simply be adopted by the Authority, and many of them are  
4 not suitable for inclusion in a set of Terms and Conditions that would be in compliance  
5 with the Commission's rules. Additionally, upon closing the acquisition, the City will  
6 repeal most, if not all, of the ordinances that relate to the rules and regulations of  
7 operating the sewer utility, and they no longer will exist.

8 The OUCC, in several of its witnesses' testimony, makes reference to my cross-  
9 examination, and characterizes it as follows:

10 During cross-examination, CEG witness LaTona Prentice acknowledged  
11 that even if the Commission grants Joint Petitioners' proposal regarding  
12 water and wastewater rules and regulations, CEG intends to implement  
13 changes to those same rules and regulations. Ms. Prentice could not  
14 identify with specificity what those changes would be, and there is no  
15 specific information regarding future changes to rules and regulations in  
16 Joint Petitioners' testimony or responses to the OUCC's data requests . . .  
17 in the absence of this information, the OUCC cannot render an opinion on  
18 whether unknown future changes by CEG to the rules and regulations  
19 being proposed for the water and wastewater utilities are or are not in the  
20 public interest . . . the OUCC recommends that, should the Commission  
21 approve the proposed transaction, the matter of water and wastewater rules  
22 and regulations be deferred to a sub-docket. This will allow for the  
23 necessary review of all changes proposed by CEG for its rules and  
24 regulations, once CEG has determined what it believes those necessary  
25 changes to be.

26  
27 (Public's Exhibit No. 5, page 51, line 16 through page 52, line 12)

28  
29 None of the OUCC's witnesses cite where this so-called "acknowledgement" is located in  
30 the transcript, and I am unable to find anyplace where they may have reached such a  
31 conclusion. In fact, quite the opposite. What my cross-examination testimony does

1 acknowledge is the fact that Petitioners' will be back to the Commission requesting  
2 approval of any further changes to its Terms and Conditions. Questions by Judge Earl:

3 Q. . . . do Citizens and the Authority anticipate revamping the rules in the  
4 near future, near future being five, ten years maybe out, to come back to  
5 the Commission and say these are our rules; these are the rules that we've  
6 selected, and this is how we want to do business going forward? Do you  
7 anticipate that process taking place, or do you anticipate these rules that  
8 you are proposing now existing out for a while?  
9

10 A. I wouldn't expect we would do anything before the rate moratoriums of  
11 each utility has passed. You know, every time I have a rate case for one of  
12 our utilities, we always go back and look at the terms and conditions of the  
13 utility, each individual utility, and make sure that the terms and conditions  
14 that we have in place make sense still today, so I wouldn't expect that that  
15 process would be any different with water and wastewater.  
16

17 (Tr. K-73, ln 21 to K-74, ln 16)  
18

19 Accordingly, my testimony indicates that Citizens Waterworks and the Authority  
20 will work within the framework of the Terms and Conditions for service approved in this  
21 Cause during the rate moratoriums. During that period, the utilities will consider whether  
22 any changes need to be made. This process will not only consider matters such as costs,  
23 but other factors, including input from "on-the-ground" employees as to whether  
24 improvements are needed. Any revisions deemed necessary as part of this process, will  
25 then be proposed as part of the rate case. Therefore, I consider there to be two problems  
26 with the OUCC's subdocket proposal: (i) it is imperative that Citizens Waterworks and  
27 the Authority have in place a set of Terms and Conditions specific to each utility  
28 immediately upon closing; and (ii) a subdocket proceeding convened before the utilities  
29 have working experience under the existing rules would be premature.



1   **Q.   DO YOU BELIEVE PETITIONERS WILL BE MAKING SIGNIFICANT**  
2       **CHANGES TO THE TERMS AND CONDITIONS OF THE TWO UTILITIES IN**  
3       **THE NEAR FUTURE?**

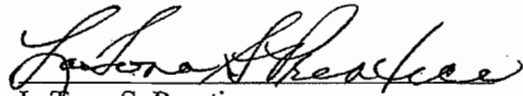
4   **A.**   No. The proposed Terms and Conditions for both utilities are in significant part the same  
5       rules under which the utilities are operating today. The people who live and operate  
6       under these rules are the same people who will be living and operating under these rules  
7       in the future, and they will continue to apply those rules in the future the way they have  
8       been applied in the past. Therefore, there is no need for a sub-docket. As Petitioners  
9       work through the integration and as operational issues are identified, we believe changes  
10      to the Terms and Conditions may be required in the future. If they are, we shall request  
11      Commission approval for changes to the Terms and Conditions at that time. This is no  
12      different from how we operate today with our other regulated entities. Process  
13      improvements, changes in the economy and technological innovation all influence our  
14      operations. From time to time, these events may prompt the need for changes to one or  
15      more of the utilities' Terms and Conditions. The Terms and Conditions of the utilities  
16      are living documents. The previous statements seem to have been misconstrued as  
17      Petitioners withholding changes, when in reality they were simply a statement of self-  
18      evident fact – industry changes, and businesses – including utilities – must adapt to those  
19      changes, and when that time comes, Petitioners will ask the Commission for approval to  
20      modify its Terms and Conditions.

21   **Q.   DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

1     A.     Yes.

**VERIFICATION**

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of her knowledge, information and belief.

  
LaTona S. Prentice



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF THE BOARD OF DIRECTORS FOR )  
UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF )  
THE CITY OF INDIANAPOLIS, D/B/A CITIZENS ENERGY )  
GROUP, CWA AUTHORITY, INC., THE CITY OF )  
INDIANAPOLIS AND ITS DEPARTMENT OF WATERWORKS )  
AND ITS SANITARY DISTRICT FOR APPROVALS IN )  
CONNECTION WITH THE PROPOSED TRANSFER OF )  
CERTAIN WATER UTILITY ASSETS TO THE BOARD AND )  
THE PROPOSED TRANSFER OF CERTAIN WASTEWATER )  
UTILITY ASSETS TO THE AUTHORITY, INCLUDING: (A) )  
APPROVAL OF INITIAL RATES AND RULES FOR WATER )  
AND WASTEWATER SERVICE , AS WELL AS THE TERMS OF )  
CERTAIN AGREEMENTS FOR WASTEWATER TREATMENT )  
AND DISPOSAL SERVICE; (B) APPROVAL OF AN )  
ENVIRONMENTAL COMPLIANCE PLAN UNDER IND. CODE )  
8-1-28 AND AN ADJUSTMENT MECHANISM FOR )  
WASTEWATER RATES TO PROVIDE TIMELY RECOVERY OF )  
COSTS NECESSARY TO COMPLY IN WHOLE OR IN PART )  
WITH THE SAFE DRINKING WATER ACT AND/OR CLEAN )  
WATER ACT; (C) APPROVAL OF PROPOSED ALLOCATIONS )  
OF CORPORATE SUPPORT SERVICES COSTS AMONG )  
AFFECTED UTILITIES; (D) APPROVAL OF AN OPERATING )  
AGREEMENT BETWEEN CITIZENS ENERGY GROUP AND )  
CWA AUTHORITY, INC.; (E) APPROVAL OF DEPRECIATION )  
RATES AND OTHER ACCOUNTING MATTERS RELATED TO )  
THE WATER AND WASTEWATER ASSETS; AND (F) ANY )  
OTHER APPROVALS NEEDED IN CONNECTION )  
THEREWITH )

CAUSE NO. 43936

VERIFIED REBUTTAL TESTIMONY  
OF  
MICHAEL D. STROHL

On Behalf of Joint Petitioners,  
Citizens Energy Group  
and  
CWA Authority, Inc.

Petitioners' Exhibit MDS-R

**INTRODUCTION AND BACKGROUND**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Michael D. Strohl. My business address is 2020 North Meridian Street, Indianapolis, Indiana.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am the Vice President, Customer Relationships, for Citizens Energy Group.

**Q. ARE YOU THE SAME MICHAEL D. STROHL THAT PREVIOUSLY SPONSORED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes I am.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS STAGE OF THE PROCEEDING?**

A. The purpose of my rebuttal testimony is to respond to certain recommendations and criticisms made by the Indiana Office of Utility Consumer Counselor ("OUCC") regarding the deposit and combined bill proposals made by Citizens Energy Group in this proceeding. I also respond to Mr. Gorman's criticisms of the deposit rules applicable to non-residential customers.

**RECOMMENDATIONS REGARDING COLLECTION OF DEPOSITS  
FROM NONRESIDENTIAL CUSTOMERS**

**Q. WHAT DOES THE OUCC RECOMMEND WITH RESPECT TO CUSTOMER DEPOSITS CURRENTLY HELD BY THE DEPARTMENT OF WATERWORKS ("DOW") AND THE DEPARTMENT OF PUBLIC WORKS ("DPW")?**

1 A. OUCC witness Margaret A. Stull recommends that “[t]o the extent that DOW or  
2 [DPW] holds customer deposits at closing, these deposits should either be paid  
3 back to customers or transferred to CEG or the Authority. If transferred to CEG  
4 or the Authority, these deposits should retain their classification as customer  
5 deposits.”

6 **Q. DOES CITIZENS ENERGY GROUP AGREE WITH MS. STULL’S**  
7 **RECOMMENDATION?**

8 A. Absolutely. It is my expectation that there will be deposits transferred to Citizens  
9 Energy Group by both DOW and DPW. The DPW, in particular, has increased  
10 its collection of deposits in an effort to reduce its historically high level of write  
11 offs. Once transferred to Citizens Energy Group, these deposits will retain their  
12 classification as customer deposits. However, returning the deposits held by  
13 DOW and DPW to customers would not be prudent, as this might create a  
14 customer service impact if Citizens Energy Group were required to immediately  
15 reassess a deposit for non-creditworthy customers.

16 **Q. ARE THERE PORTIONS OF MS. STULL’S TESTIMONY RELATING**  
17 **TO DEPOSITS THAT YOU DISAGREE WITH?**

18 A. Yes. I disagree with Ms. Stull’s contention that “the Commission’s rules  
19 regarding deposits do not differentiate based on customer class” in her discussion  
20 of the different methodologies for calculating the deposits charged to residential  
21 and nonresidential customers. To the contrary, the Commission’s regulations  
22 describing the method for calculating deposits expressly apply to “*residential*

1 applicants or customers.” The rule describes the circumstances under which  
2 “[e]ach new applicant for *residential* water service shall be deemed  
3 creditworthy.” In other words, the plain language of the regulation cited by Ms.  
4 Stull indicates that it applies to the determination of “residential” deposits.

5 **Q. ARE YOU AWARE OF ANY UTILITIES THAT APPLY A DIFFERENT**  
6 **METHODOLOGY FOR DETERMINING NONRESIDENTIAL DEPOSITS**  
7 **AS COMPARED TO RESIDENTIAL DEPOSITS?**

8 A. Yes – Citizens Gas. The rules for calculating nonresidential deposits set forth in  
9 the proposed water and wastewater terms and conditions were based on the  
10 identical rule in Citizens Gas’ Terms and Conditions for Gas Service.

11 **Q. HAVE THE OUCC OR INDUSTRIAL INTERVENORS CHALLENGED**  
12 **CITIZENS GAS’ METHODOLOGY FOR CALCULATING**  
13 **NONRESIDENTIAL DEPOSITS?**

14 A. To my knowledge, no. I would note that Citizens Gas has proposed minor  
15 changes to its Terms and Conditions for Gas Service in each of its most recent  
16 rate cases. The language regarding nonresidential deposits set forth in those  
17 Terms and Conditions has been the same under the current Terms and Conditions  
18 for Gas Service since at least 1983.<sup>1</sup>

19 **Q. DO ANY OTHER UTILITIES SIMILARLY EMPLOY DISPARATE**  
20 **METHODOLOGIES FOR CALCULATING NONRESIDENTIAL AND**  
21 **RESIDENTIAL DEPOSITS?**

---

<sup>1</sup> However, the minimum nonresidential customer deposit was changed from \$25 to \$40 in 1991.



1 A. Yes. It is not uncommon for utilities to have different methodologies for  
2 calculating deposits for nonresidential customers. For instance, Vectren Energy's  
3 terms and conditions for gas service provide that the: "Company may require  
4 from a present or prospective Commercial or Industrial Customer a cash deposit  
5 equal to the sum of estimated billing amounts for Customer's two consecutive  
6 months of highest usage. Such deposits may be based on historical or expected  
7 usage."

8 **Q. GIVEN THAT CITIZENS GAS AND OTHER UTILITIES HAVE**  
9 **SIMILAR NONRESIDENTIAL DEPOSIT RULES, WHY DO YOU**  
10 **BELIEVE THE OUCC AND INDUSTRIAL CUSTOMERS ARE**  
11 **CONCERNED ABOUT THE PROVISIONS IN THE PROPOSED WATER**  
12 **AND WASTEWATER TERMS AND CONDITIONS FOR SERVICE?**

13 A. The OUCC and Industrial Group's concerns are summarized in the testimony of  
14 Mr. Gorman. Mr. Gorman states that the proposed rules, as written, do not protect  
15 nonresidential customers from discriminatory exercise of the utilities' discretion  
16 in demanding a deposit, establishing the size of the deposit, and retaining the  
17 deposit.

18 **Q. DOES CITIZENS ENERGY GROUP HAVE PROCEDURES IN PLACE**  
19 **TO PROTECT NONRESIDENTIAL CUSTOMERS FROM THE**  
20 **COLLECTION OF DEPOSITS ON A DISCRIMINATORY BASIS?**

21 A. Yes. Citizens Energy Group uses a decision matrix in calculating, collecting and  
22 retaining deposits from both residential and nonresidential customers. A copy of

1 the decision matrix for nonresidential customers is attached as Petitioners' Exhibit  
2 MDS-R1. The decision matrix considers such factors as whether or not the  
3 customer is new to the system, prior credit history, whether or not there are  
4 outstanding debts to the utility, the financial condition of a commercial or  
5 industrial customer based on their financial statements, if such statements exist,  
6 among other factors. Under the current policy and decision matrix, a  
7 nonresidential customer with no outstanding debt to the utility from a prior  
8 service and an acceptable payment history would not be assessed a deposit. In  
9 fact, as of September 30, 2010, Citizens Energy Group only held deposits for  
10 approximately 4,500 commercial customers, or approximately 21% of total  
11 commercial customers. As of that date, Citizens Energy Group did not hold a  
12 deposit for a single industrial customer. I do not expect the numbers to be  
13 significantly different with respect to collection of deposits from commercial and  
14 industrial water and wastewater customers.

15 **Q. WILL CITIZENS ENERGY GROUP ADOPT SIMILAR DECISION**  
16 **MATRICES FOR THE WATER AND WASTEWATER SYSTEM?**

17 A. Yes.

18 **Q. IN YOUR OPINION, IS THERE A NEED FOR EMPLOYING**  
19 **DIFFERENT METHODOLOGIES FOR DETERMINING DEPOSITS FOR**  
20 **RESIDENTIAL AND NONRESIDENTIAL CUSTOMERS?**

21 A. Yes. Applying the residential methodology for determining deposits for  
22 nonresidential customers would at times, result in a deposit insufficient to protect

1 the utility and hence its customers from the risk of nonpayment. Often, usage of  
2 large commercial and industrial customers varies drastically from month-to-  
3 month or from season-to-season. Likewise, it is much more difficult to ensure  
4 collection of bad debts from commercial customers than residential customers. A  
5 commercial customer can potentially go out of business, reincorporate under a  
6 new name and new tax identification number and receive new utility service  
7 without satisfying outstanding debts. This is typically not the case for residential  
8 customers. Additionally, in many instances there is higher turnover of  
9 commercial accounts than residential accounts. If the deposit is based on 1/6 of  
10 the customer's annual usage and nonpayment occurs during a period where usage  
11 is high, or where a new business fails to survive, the deposit collected from the  
12 customer could be insufficient to compensate the utility for actual usage – which,  
13 in turn, increases bad debt costs for all customers.

14 **Q. WHY DO YOU BELIEVE IT IS NECESSARY TO CHARGE A DEPOSIT**  
15 **BASED ON THREE MONTHS USAGE AS OPPOSED TO TWO**  
16 **MONTHS?**

17 A. Generally, a customer will be in default for at least three consecutive months  
18 before a utility is able to disconnect service and avoid further losses. The cycle  
19 from meter read to disconnect for non-paying customers typically takes 70-90  
20 days. Under this scenario, a customer is still using utility service until the service  
21 is disconnected, therefore the utility could be extending credit to this customer for

1 up to 90 days. A deposit based on three months usage is an appropriate mitigating  
2 factor to this risk.

3 **Q. HOW DO YOU RESPOND TO MR. GORMAN'S CRITICISM THAT**  
4 **CITIZENS ENERGY GROUP'S PROPOSAL WITH RESPECT TO**  
5 **NONRESIDENTIAL CUSTOMERS "GIVES THE UTILITY A LONG-**  
6 **TERM LOAN?"**

7 A. Citizens Energy Group is not in the business of collecting deposits and either  
8 making interest income or incurring interest expense. We would rather not have  
9 to collect deposits. As reflected in the matrices attached as Petitioners' Exhibit  
10 MDS-R1, a deposit is only held when a customer does not have a healthy  
11 payment pattern or is considered a credit risk. This is particularly true for  
12 commercial and industrial customers. Citizens Energy Group has a process in  
13 place where we annually review deposits held for every commercial and industrial  
14 customer. If the customer has a good payment history, Citizens Energy Group  
15 refunds the deposit. In fact, last year Citizens Energy Group refunded 725  
16 commercial and industrial deposits – amounting to over \$1 million. Citizens  
17 Energy Group will continue that policy for water and wastewater customers.

18 **Q. IF A COMMERCIAL OR INDUSTRIAL CUSTOMER HAS A**  
19 **COMPLAINT ABOUT THE ASSESSMENT OF A DEPOSIT OR THE**  
20 **AMOUNT OF DEPOSIT CHARGED, WHAT IS THEIR RECOURSE?**

21 A. Citizens Energy Group's customer service representatives are trained to work  
22 with customers and make arrangements where the customer is unable to pay the

1 deposit. Likewise, a commercial or industrial customer may request a refund of a  
2 deposit at any time. Upon such a request, Citizens Energy Group will review the  
3 customer's credit history and payment patterns and determine if a full or partial  
4 refund of the deposit is appropriate. If a customer still has concerns about the  
5 amount of a deposit, or how long it is being held, the customer could lodge a  
6 complaint with the Commission.

7 **RECOMMENDATIONS REGARDING INTEREST ON DEPOSITS**

8 **Q. WHAT OTHER OBJECTIONS DOES THE OUCC RAISE WITH**  
9 **RESPECT TO CITIZENS ENERGY GROUP'S PROPOSED DEPOSIT**  
10 **RULES?**

11 A. The OUCC objects to Citizens Energy Group's use of the rate of interest  
12 established by the Commission in a general administrative order ("GAO") each  
13 calendar year, until such time as the combined bill is implemented.

14 **Q. DO YOU BELIEVE IT IS IMPORTANT THAT THE RATE OF**  
15 **INTEREST PAID ON DEPOSITS BE THE AMOUNT ESTABLISHED BY**  
16 **THE COMMISSION IN A GAO?**

17 A. Yes. The most important reason for using the rate of interest the Commission  
18 establishes annually through a GAO is to protect all ratepayers from being  
19 burdened with a considerably higher interest expense the utility would need to  
20 recover in its revenue requirements. A deposit will be held only for a non-  
21 performing customer. To the extent Citizens Energy Group or the Authority is  
22 required to pay an interest rate of 6% to non-performing customers, those

1 customers that pay their bills in a timely manner will be burdened with rates  
2 reflecting a higher interest expense cost.

3 **Q. MS. STULL NOTES THAT YOU ARE "CORRECT THAT 170 IAC 6-1-**  
4 **15(F)(1) PROVIDES THAT INTEREST ON CUSTOMER DEPOSITS MAY**  
5 **BE BASED ON '. . . SUCH OTHER RATE OF INTEREST AS THE**  
6 **COMMISSION MAY PRESCRIBE FOLLOWING A PUBLIC**  
7 **HEARING," BUT STATES THAT THE "OUCC DOES NOT CONSIDER**  
8 **THE HEARINGS HELD IN THIS PROCEEDING TO MEET THE**  
9 **REQUIREMENT OR THE INTENT BEHIND THIS CODE SECTION."**  
10 **HOW DO YOU RESPOND?**

11 **A.** The hearings held in this proceeding clearly meet the "public" requirement set  
12 forth in 170 IAC 6-1-15(f)(1). Moreover, I do not read 170 IAC 6-1-15(f)(1) as  
13 being intended to require any particular type of "public" hearing. To the contrary,  
14 Citizens Gas of Westfield sought and received Commission approval to use the  
15 rate of interest prescribed by GAO as part a general rate case. Ms. Stull appears to  
16 imply that a utility must seek to use the Commission-approved interest rate in a  
17 separate stand-alone proceeding. In my view, imposing such a requirement would  
18 be costly and inefficient for all parties involved.

19 **Q. DO YOU AGREE WITH MS. STULL'S ASSERTION THAT "IT DOESN'T**  
20 **SEEM 'FAIR' TO OTHER WATER AND WASTEWATER UTILITIES**  
21 **FOR CITIZENS TO BE ALLOWED TO PAY .5% (CURRENT RATE PER**

1       **MR. STROHL ON CROSS EXAMINATION) ON CUSTOMER DEPOSITS**  
2       **WHILE OTHERS ARE REQUIRED TO PAY 6%?"**

3    A.    No. First, I am not aware of anything that would preclude similarly situated water  
4           and wastewater utilities from seeking authority to apply the Commission-  
5           established interest rate to deposits instead of 6%. Second, I do not view the issue  
6           as one of "fairness" to other water and wastewater utilities. I view the issue as  
7           one of "fairness" to customers. In my opinion, it is not "fair" to the utilities'  
8           paying customers to incur higher interest costs for non-performing customers.

9    **Q.    ARE ALL OTHER WATER AND WASTEWATER UTILITIES**  
10       **REQUIRED TO PAY 6% INTEREST ON DEPOSITS AS SUGGESTED BY**  
11       **MS. STULL?**

12   A.    No. For instance, Utility Center, Inc, d/b/a/ Aqua Indiana, Inc.'s terms and  
13           conditions for service provide: "[a] deposit made pursuant to this Rule and held  
14           by the Company for more than twelve months will earn interest from the date of  
15           deposit to the date that it is mailed or personally delivered to the customer, or  
16           otherwise lawfully disposed of in accordance with this rule at the rate currently in  
17           effect as prescribed by the Commission."

18   **Q.    MS. STULL STATES THAT "IT IS LIKELY THAT THE SHORT-TERM**  
19       **INTEREST RATE CEG MIGHT BE SUBJECT TO WOULD EXCEED**  
20       **.5%." IS THAT LIKELY?**

21   A.    Ms. Stull appears to incorrectly believe Citizens Energy Group should pay a  
22           higher rate of interest on deposits because customer deposits somehow limit the

1 need for borrowing on short-term credit facilities. Citizens Energy Group does  
2 not collect deposits from its customers as a means of financing operating  
3 expenses. As I have previously stated, Citizens Energy Group would prefer to not  
4 have to collect deposits at all. Deposits are only assessed on those customers with  
5 poor payment patterns or customers deemed to be high credit risk. That said,  
6 Citizens Energy Group's current cost of borrowing on short-term lines of credit is  
7 approximately 1.75% and its cost of borrowing on its commercial paper facility is  
8 approximately 0.80%. Even if the cost of short-term credit was used as the basis  
9 to compare against the interest paid on customer deposits, there is a mismatch  
10 between the 6% rate paid to customers of the Water and Wastewater system  
11 currently and the cost of borrowing that is less than 2%. Under Ms. Stull's  
12 analysis, customers may actually prefer to pay deposits in order to earn a rate of  
13 interest well in excess of what they might currently be able to earn in the short-  
14 term fixed income investment market.

15 **Q. MS. STULL STATES THAT ON CROSS EXAMINATION YOU**  
16 **TESTIFIED "PAYING A 6% RATE ON CUSTOMER DEPOSITS**  
17 **DISADVANTAGES CEG." IS THAT YOUR TESTIMONY?**

18 **A.** As reflected above, I believe the *ratepayers* – not Citizens Energy Group – are  
19 principally disadvantaged by the payment of a 6% interest rate on deposits.  
20 During the evidentiary hearing, I testified that with respect to the mismatch  
21 between the interest rate on deposits held and the interest rate earned,  
22 "[u]ltimately, in my view, that all kind of flows out in the revenue requirement



1           anyway. . . . It is either . . . interest income or interest expense and flows to the  
2           revenue requirement in the interest expense line item.” (Tr. at L-39.)

3    **CONCERNS ABOUT THE COMBINED BILL**

4    **Q.    WHAT ARE THE OUCC’S CONCERNS REGARDING THE PROPOSED**  
5    **APPLICATION OF PARTIAL PAYMENTS TO THE COMBINED BILL?**

6    A.    Ms. Stull explains that “[c]urrently, if a customer is having difficulty paying  
7           utility bills, the customer has some choice in how much to apply to each bill,  
8           determining for themselves which utility service will be in ‘danger’ of being shut-  
9           off.” Unfortunately, any methodology used to allocate partial payments  
10          necessarily takes some control away from the customer with respect to  
11          determining how much of a payment is applied to particular services. There is no  
12          methodology that could be used that would not result in the lack of choice as  
13          described by Ms. Stull.

14               That being said, customers overwhelmingly want to receive a combined  
15               bill. Citizens Energy Group surveyed a group of low-income customers that  
16               receive Energy Assistance Program (“EAP”) funds and almost all stated that they  
17               would prefer to receive one bill and make one payment (although the change  
18               would mean one big bill instead of three different bills and three different due  
19               dates).

20               Citizens Energy Group believes the partial payment allocation  
21               methodology we have proposed is logical and fair. As stated in my direct

1 testimony, the methodology chosen by Citizens Energy Group also is consistent  
2 with the methodology used by other combined utilities.

3 **Q. MS. STULL STATES THAT "CUSTOMERS IN DIFFICULT STRAITS**  
4 **SHOULD RETAIN THE ABILITY TO MAKE LEGITIMATE DECISIONS**  
5 **THAT WILL LESSEN THEIR DIFFICULTIES." DO YOU AGREE WITH**  
6 **THAT STATEMENT?**

7 A. Yes. In fact, Citizens Energy Group intends to allow customers to contact  
8 customer service representatives and select a particular service to which they  
9 would like partial payments applied. Therefore, a customer that wants the entirety  
10 of a partial payment to be devoted to one service will be able to do so.

11 **Q. WILL EAP CUSTOMERS MAKING PARTIAL PAYMENTS HAVE**  
12 **THEIR WATER SERVICE DISCONNECTED DURING THE WINTER**  
13 **GAS DISCONNECTION MORATORIUM PERIOD AS MS. STULL**  
14 **SUGGESTS.**

15 A. No. Again, if a customer makes a partial payment, we will allow the customer to  
16 contact Citizens Energy Group's customer service representatives to elect which  
17 service they would like the payment applied to. Therefore, during the moratorium  
18 period, an EAP customer will be able to elect to have a partial payment applied to  
19 water and wastewater service. Citizens Energy Group's customer service  
20 representatives are trained to assist the Utility's low-income customers. I would  
21 also note that Citizens Energy Group has initiated multiple programs to assist  
22 low-income families in maintaining gas utility service – such as the Universal

1 Service Program, Warm Heart Warm Home, low-income crisis assistance and  
2 low-income weatherization. It is my expectation that Citizens Energy Group will  
3 continue to strive to assist low-income customers in maintaining their other  
4 necessary utility services.

5 **Q. MR. PETTIJOHN STATES THAT THERE IS NO EVIDENCE IN THE**  
6 **RECORD REFLECTING WHAT CITIZENS ENERGY GROUP'S**  
7 **RETURNED CHECK FEE, RECONNECTION CHARGE AND LATE**  
8 **FEES WILL BE UNDER A COMBINED BILL. WHY IS THAT?**

9 A. Citizens Energy Group will not be issuing combined bills for the next 18 to 24  
10 months. Before the combined bills are issued, Citizens Energy Group obviously  
11 will need to modify its terms and conditions and seek Commission approval of  
12 those changes. The proposed terms and conditions for service are designed to  
13 provide regulations for the state of affairs that will exist at closing.

14 **IMPLEMENTATION OF OTHER PROGRAMS**

15 **Q. MS. STULL STATES THAT THE OUCC QUESTIONS WHY IT WILL**  
16 **TAKE BETWEEN 18 TO 24 MONTHS FOR CITIZENS ENERGY GROUP**  
17 **TO IMPLEMENT PROGRAMS THAT ARE NOT RELATED TO**  
18 **COMBINED BILLING. WHAT IS YOUR RESPONSE?**

19 A. It will not take between 18 to 24 months for Citizens Energy Group to implement  
20 a number of the programs referenced in Ms. Stull's testimony. Specifically,  
21 Citizens Energy Group hopes to implement the Senior Services Package, which  
22 includes duplicate notice protection and deferred late payment charge plan, as

1 well as expanded payment options, as soon as is practical after closing but before  
2 implementation of a combined bill. The budget billing option is a component of  
3 the combined bill. In essence, the customer's entire billed amount for all services  
4 will be averaged. Therefore, this option necessarily will not be available until  
5 combined billing is implemented.

6 **Q. COULD CITIZENS ENERGY GROUP MAKE THE SENIOR SERVICES**  
7 **PACKAGE AVAILABLE TO ALL CUSTOMERS AS SUGGESTED BY**  
8 **MS. STULL?**

9 A. No. As reflected in Ms. Stull's testimony, the Senior Services Plan allows more  
10 time for payment in situations where a bill cannot be paid because the due date  
11 conflicts with the timing of the receipt of a pension or Social Security check. It  
12 would be administratively burdensome to make such a program available for all  
13 customers and potentially be detrimental to the Utility's cash flows. If the  
14 program was made more broadly available, customers could offer a myriad of  
15 reasons for late payment and establish multiple and constantly changing due  
16 dates.

17 **Q. ABSENT SUCH A PROGRAM BEING MADE AVAILABLE TO ALL**  
18 **CUSTOMERS, WILL CUSTOMERS HAVE THE FLEXIBILITY**  
19 **NECESSARY TO MAINTAIN UTILITY SERVICE?**

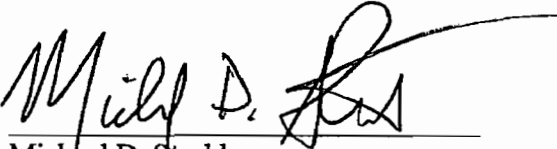
20 A. Yes. Citizens Energy Group frequently offers payment arrangements to  
21 customers to ensure that they are able to maintain utility service.

1 Q. DOES THAT CONCLUDE YOUR PREPARED REBUTTAL  
2 TESTIMONY?

3 A. Yes it does.

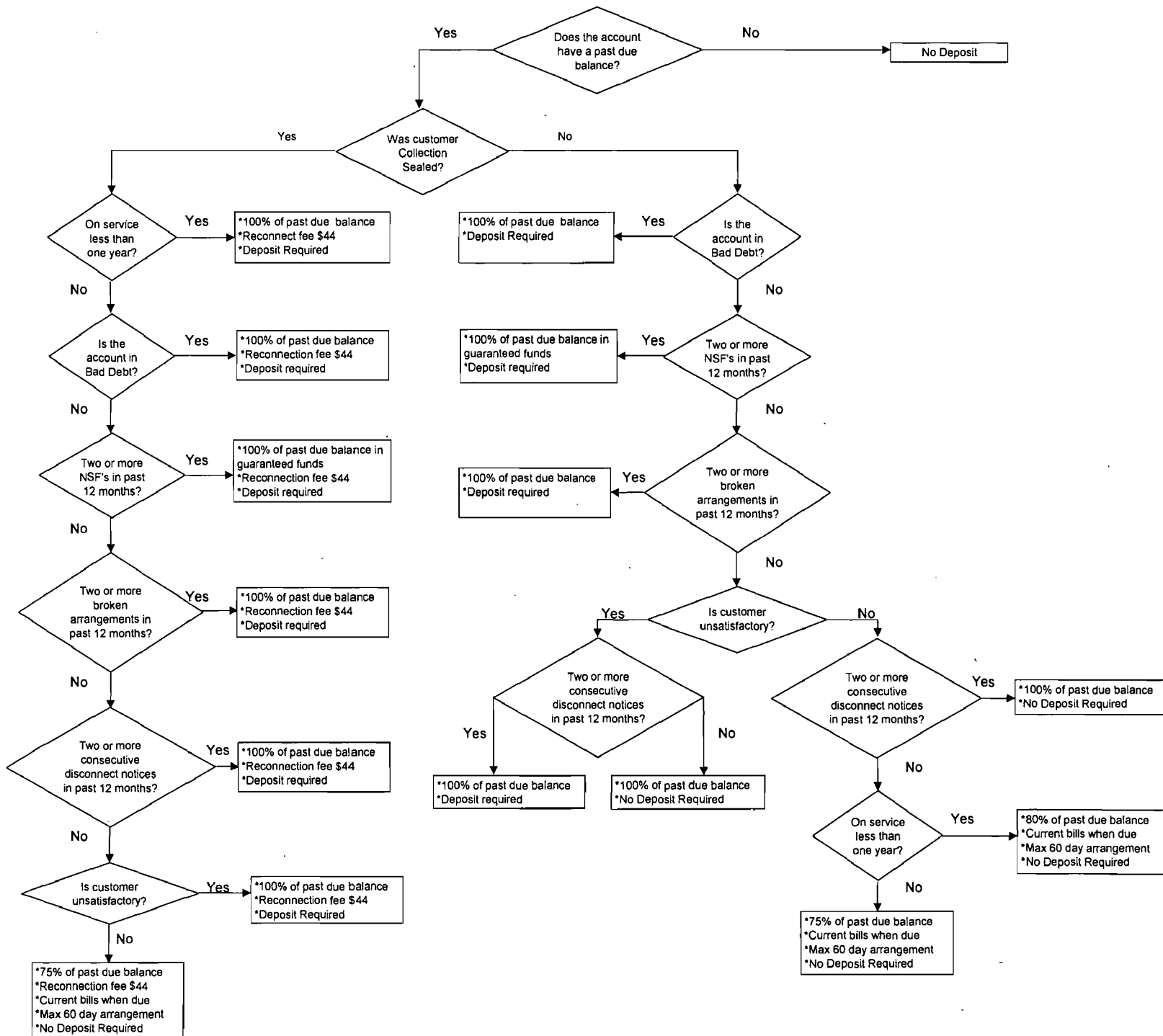
**VERIFICATION**

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.

  
Michael D. Strohl



# Reconnection Decision Tree



Petitioners' Exhibit  
MDS-R1





## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served upon the following by delivering a copy thereof electronically or by U.S. Mail, postage prepaid, this 28<sup>th</sup> day of January, 2011:

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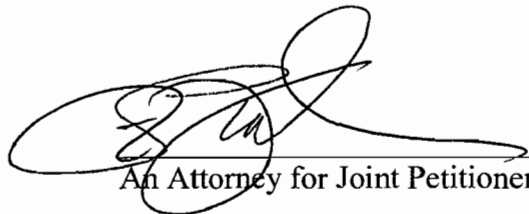
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